



*Why Education Matters to Employers. A Vignette Study in Italy, England and the Netherlands*

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## **WHY EDUCATION MATTERS TO EMPLOYERS**

### **A vignette study in Italy, England and the Netherlands**

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This dissertation presents a comparative study of school-to-work transitions in Italy, England and the Netherlands, with a focus on why education matters to employers during the hiring process. Three possible explanations (*matching mechanisms*) are discussed: education is a provider of productivity-enhancing skills; education is a signal of expected trainability; education is a legitimized closure practice. These theories are related to various features of educational attainment: level of education, field of study, grades, study duration, credentials, internships. Through a web-based vignette study, 131 employers from the Information, Communication and Technology sector (ICT) took part in a simulation of a hiring process.

This research offers several contributions to the field of sociology of education, and particularly to the literature on school-to-work transitions. First, it provides a comparative insight into the hiring behaviour of employers, one side of the labour market that has been rarely surveyed. Specifically, the focus lies on whether and why employers take the educational background of job applicants into account when formulating a hiring decision. Second, this is the first study that quantifies the role of education in employers' hiring decisions in a way that is highly comparable across countries. The project empirically tests whether various facets of educational attainment (e.g. level of education, field of study, grades, participation in internships and extra-curricular activities) matter to employers for their hiring decisions, thus better qualifying the education effect. This approach improves on earlier studies on the labour market allocation of school leavers that have focused on a limited subset of individual characteristics, level of education in particular, disregarding other aspects of the educational pedigree. On the basis of employers' preference for one or the other aspect of a job applicant's educational background, education is interpreted as, respectively, productivity-enhancing, a signal of trainability, or a means for social closure. Third, the project bridges two important lines of research that have so far developed separately: a well-developed scholarship that focuses on the influence of the institutional context on the strength of the education effect across countries and a well-established body of literature that explores the mechanisms why education is rewarded by employers but pays little attention to the institutional framework in which employers operate. Emphasis is placed on how complementary institutions of the education system and of the labour market influence the way employers reward education. Fourth, this research merges economics and sociological perspectives about employers' hiring behaviour at the micro-level, with both *i*) a focus on the meso-level of analysis typical of organization studies; and *ii*) the macro-lenses of comparative institutional analysis. In my theoretical framework, I integrate contributions from economics, sociology and organization studies and distinguish between three levels of analysis: the micro-level of individuals (i.e. employers), the meso-level of the organization, and the macro-level of the country in which employers operate. The focus on organizations in particular adds to earlier studies that have not sufficiently explored within-country variation in the relationship between education and labour market gains, and its underlying mechanisms. Lastly, from a methodological point of view, I simulated a hiring process using a vignette study, which allows a comparison of successful applicants with rejected ones. The simulation has been structured as to closely mimic the screening of curricula, the creation of a shortlist after applicant pools have been formed and the invitation to a job interview. Thus, I was able to model how several educational features influence employers' assessments of job applicant at different stages of the hiring process. More broadly, this book illustrates how vignette studies can be applied to the study of employers' hiring behaviour, a methodology that has not yet entered common usage in the field of comparative stratification.

In chapter 1, I describe the research design. By focusing on the ICT sector, I aimed to maximize cross-national variation in terms of education and labour market institutions at the country level while at the same time keeping constant the sector of the economy in which the hiring decisions were made. Distinctive characteristics of the ICT sector are common to the three countries: an industrial landscape mainly composed of small firms, dominated by a few large players and concentrated in regional clusters; a volatile labour demand, dependent on globalization processes and service-oriented; a highly educated labour supply, primarily male, younger than average and characterized by a high turnover rate. Arguably, this is the economic sector where the needs related to the skill formation of the workforce are most comparable. While keeping constant sector-specific characteristics and focusing on the economic sector where occupational requirements and skill profiles are most similar, I can more confidently relate variation in employers' use of educational qualifications to the institutional and organizational context within which employers operate.

In chapter 2, I introduce the scholarly debate on the reason why education matters for employers' hiring behaviour. After discussing the three matching mechanisms, I review a number of institutional dimensions that have been identified in earlier studies as important moderators of youth entry into employment. The argument of relating mechanisms to institutions is then presented, introducing the idea of conditional support. The meso-level of organizations is then described as the missing link between employers' behaviour at the micro level and the macro-level institutional framework in which hiring decisions are taken. I propose a theoretical model that builds on the distinction between open and closed employment relationships and formulate the conditions at the level of the organization that are more favourable for a given mechanism to operate.

Chapter 3 provides a rich description of the institutional framework that characterizes school-to-work transitions in Italy, England and the Netherlands, and presents the broad working hypotheses that are at the core of the research project. In the first section, the institutional arrangements discussed in chapter 2 serve as analytical toolbox to enhance the distinctive characteristics of each country-specific transition system, and to emphasize their impact on the allocation of school-leavers into the labour market. In the section that follows, data from cross-national surveys of school leavers and from employer surveys and qualitative studies of employers' hiring behaviour are discussed. Comparative findings from these projects are interpreted in light of the three matching mechanisms. Consistencies between the projects' results and the predictions underlying each mechanism are then addressed, leading to the development of hypotheses that relate employers' reliance on specific educational features (e.g. grades, internships, field of study) to the three matching mechanisms. I argue that the importance attached by employers to particular attributes (and the neglect of others) can be interpreted as the manifestation that a given mechanism is more plausible in one institutional context than in another to explain the education payoff. Hence, human capital theory is more plausible in a country like the Netherlands, where the vocational specificity of the education system is high and there are strong linkages between schools and firms. Sorting models should be more applicable in England and Italy, where the low vocational orientation of the curricular offering has to be compensated with on-the-job training, and employers should be particularly concerned about the expected trainability of prospective hires. Finally, closure processes should prevail in the Netherlands - where occupational entry and career progression are based on the possession of a given qualification - but also in England, due to the high share of tertiary degree-holders, which devalue the labour market currency of unfinished schooling.

Chapter 4 lays out the design of the research, introducing the methodological choices that were made while setting up the hiring simulation. I first define who in my research is considered as employer, in order to clarify the decision makers who were targeted. Next, I compare vignette studies to a range of alternative methods, discussing their main advantages and disadvantages. I then turn to the data collection and give an overview of the characteristics of the respondents in the

three countries. The estimation technique applied for the empirical analyses is presented next. Hiring judgments expressed at the individual level will be analysed with reference to: 1) the national context within which employers operate, with its defining institutions (chapter 5 and 6); and 2) the organization of the employer and its characteristics, in terms of size of the workforce, training provision, recruitment activities, etc. (chapter 7). Concerns about the validity and reliability of the results obtained from this study are then discussed.

Chapter 5 and 6 present the main findings from the hiring simulation. Chapter 5 refers to the stage of curricula screening and analyses employers' ratings of job applicants' résumés. Three outcomes are discussed: 1) the likelihood that the employer would hire the job applicant; 2) the likelihood that the job applicant is perceived by the employer as easy to train, if hired; 3) the likelihood that the job applicant is perceived by the employer as a good fit with the corporate culture of the organization, if hired. Findings are presented separately for each single characteristic mentioned in the vignette. To substantiate the external validity of the findings, a comparison is made between employers' ratings in the hiring simulation and their reported behaviour in real hiring situations, based on their answers to the accompanying questionnaire. One direct indicator of the matching mechanisms (also taken from the employer questionnaire) is then related to the findings obtained from the vignette study, proving convergent validation. Chapter 6 discusses the following stages of the hiring process: the creation of a shortlist and the ranking of applicants in view of a job interview. Findings are compared to the ones in the previous chapter. Job interview offers are then analysed with regard to the likelihood that the applicant invited is a vertical match (i.e. has a level of education that corresponds to the one required by the organization to access the job).

Chapter 7 refers to the level of the organization. The theoretical model outlined in chapter 2 is taken as the point of departure to formulate hypotheses about inter-organizational variation in the reason why education matters to employers. Specifically, employment relationships will be described along a continuum that ranges from open to closed systems. Variables at the level of the organization are expected to pull the relationship towards one or the other pole of the continuum, affecting the way employers interpret educational qualifications. The productivity-enhancing mechanism and the trainability improvement mechanism are expected to operate in, respectively, open and closed systems. Hypotheses are then tested empirically, based on the answers from the employer questionnaire. Some of the organizational characteristics (e.g. anticipated training investment, recruitment channels, formalization of hiring practices, training provision) are also related to the broader national context.

Chapter 8 concludes with a summary of the main findings of the project. Results are summarized from a comparative perspective, both across countries and across organizations. Dutch employers are more likely to reward education because it provides job-specific skills. In the Netherlands, educational credentials serve as a closure practice within a labour market that is strongly segmented by qualifications and that is barely (if at all) accessible to non-tertiary graduates. Employers in England expect new hires to learn skills on the job and rely on grades to identify the applicants with the lower training costs. Internships at the employers' premises also represent a successful route into the organization. Results are less straightforward for Italy, where employers seem to simultaneously reward skills and trainability; closure, by degrees or by networks, is nearly absent. The book also proposes a theoretical model that relates organizational factors (e.g. recruitment practices, training investment and job type) to a continuum between open and closed employment relationships. Results indicate that while moving from open to closed relationships, employers are less likely to reward job-specific skills and more likely to associate education with expected trainability.