

“Employers’ Hiring Practices, Employment Protection, And Costly Search: A Vacancy-Level Analysis”

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Abstract

In a sequential search environment an employer may choose to adjust to high costs of continued search by lowering hiring requirements. While such an adjustment improves an employer’s chances of filling a vacancy, it is more likely to result in a match that will terminate as the match is hit by match-specific productivity shocks. Evidence in this paper suggests that an employer takes into account the implied consequence of his requirement adjustment when facing high firing costs associated with terminating a permanent (indefinite-length) employment contract. In particular, drawing on an extensive Slovenian vacancy dataset, we find that an employer who faces high costs of continued search is more likely to hire an under-qualified worker. More importantly, we find that an employer accompanies his response to high costs of continued search with an adjustment in an offered employment contract; i.e., by hiring an under-qualified worker on a less costly temporary (finite-length) contract. These findings provide novel vacancy-level insights into employers’ hiring practices in the presence of employment protection and costly search.

Keywords: Vacancy costs, Qualification mismatch, Employment protection

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