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Looking for Talent in All the Right (New) Places

Tightening labor markets drive up pay. As pay goes up, so too do demands on compensation practitioners. Tighter labor markets inflate compensation costs, strain salary increase budgets and extend time-to-hire. Organizations continue seeking the best talent at the lowest cost, but those costs keep increasing.

If necessity is the mother of invention, can tighter labor markets spur innovative recruitment practices?

The Economics of Tight Labor Markets

The labor market recovery that followed the Great Recession was historically slow. Standard measures, however, suggest the U.S. labor market has now tightened to pre-recession levels. The U.S. monthly unemployment rate was at or below its pre-recession low of 4.4% throughout most of 2017, and by spring of 2018 it had fallen to the upper 3s. (See Figure 1.) In response, the inflation rate of employer costs for employee compensation, as measured by the Employment Cost Index (ECI), has been ticking up. Beginning in 2017 and continuing into 2018, the 12-month ECI trend sits solidly above its prior seven-year average of 2.01%. (See Figure 2.) The 12-month ECI averaged 2.01% for the seven-year post-recession stretch from first quarter 2010 through fourth quarter 2016. The average for first quarter 2017 through first quarter 2018 was 2.52%.

Economics 101 teaches us that to lower price pressures, including for new hires, you must reduce demand or increase supply. For an individual employer, increasing supply means expanding your talent pool — either by getting more people through your normal channels or by innovatively recruiting and finding talent in places you haven't looked before.

Is Affirmative Action the Mother of Invention?

"The Persistent Effect of Temporary Affirmative Action," by Conrad Miller, a study of U.S. affirmative action regulation, offers empirical hope for being able to sustainably innovate recruiting practices in order to tap new talent sources. Selected as among the annual best in the American Economic Journal: Applied Economics, Miller's article reveals that individual businesses continue to reap diverse-hiring benefits years after regulatory compliance has ended (American Economic Journal: Applied Economics, 2017, 9(3): 152–190 https://doi.org/10.1257/app.20160121).

Miller focuses on businesses that are former federal contractors. His sample includes a wide range of businesses, from a major defense contractor for the U.S. Air Force to a small family-owned janitorial services company that provided cleaning services to a local federal government office.

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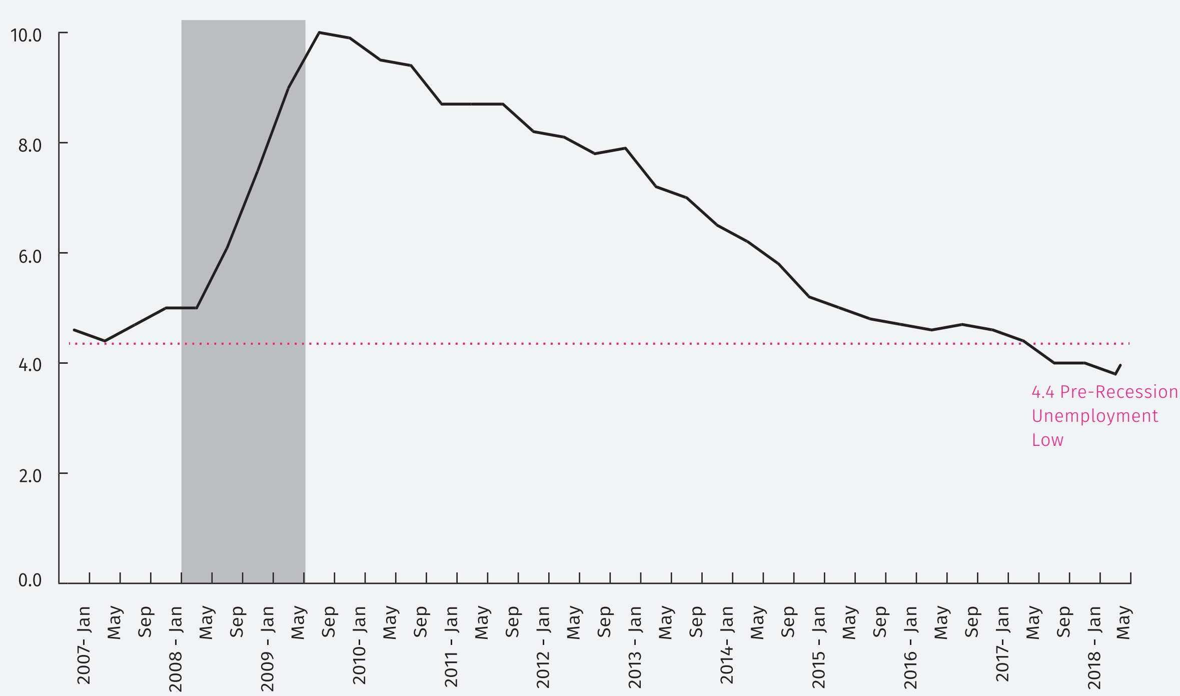
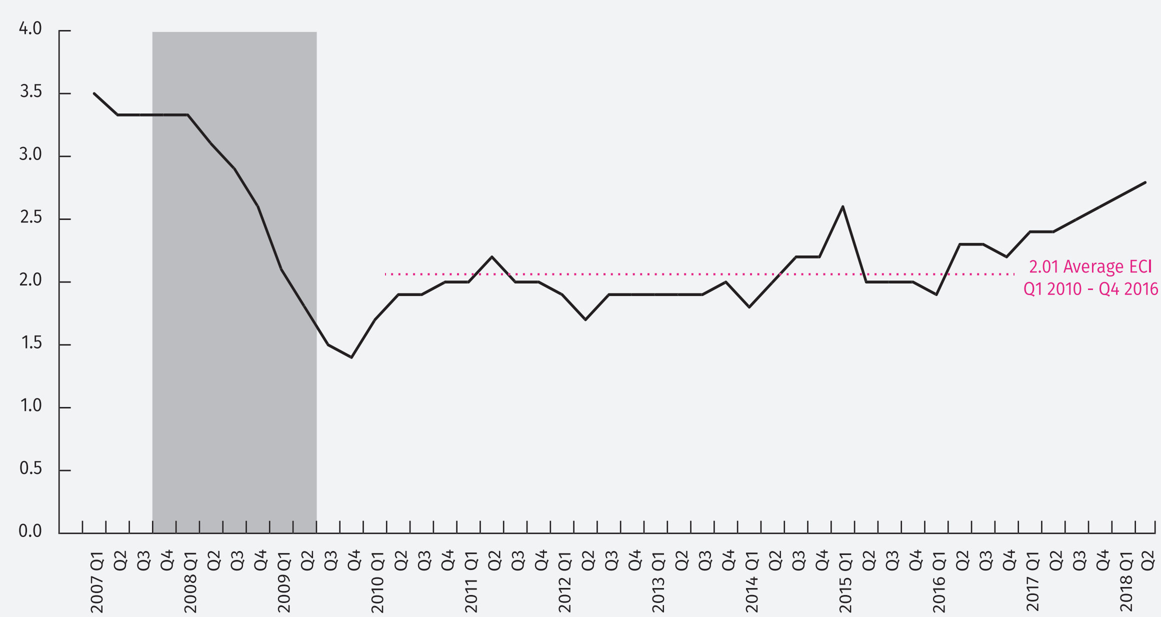
FIGURE 1 | Unemployment During and After Great Recession

All U.S. Civilian Workers, 12-month percent change



Gray Shading Shows Official Dates of Recessionary Period Data Source: U.S. Bureau of Labor Statistics, retrieved July 27, 2018.

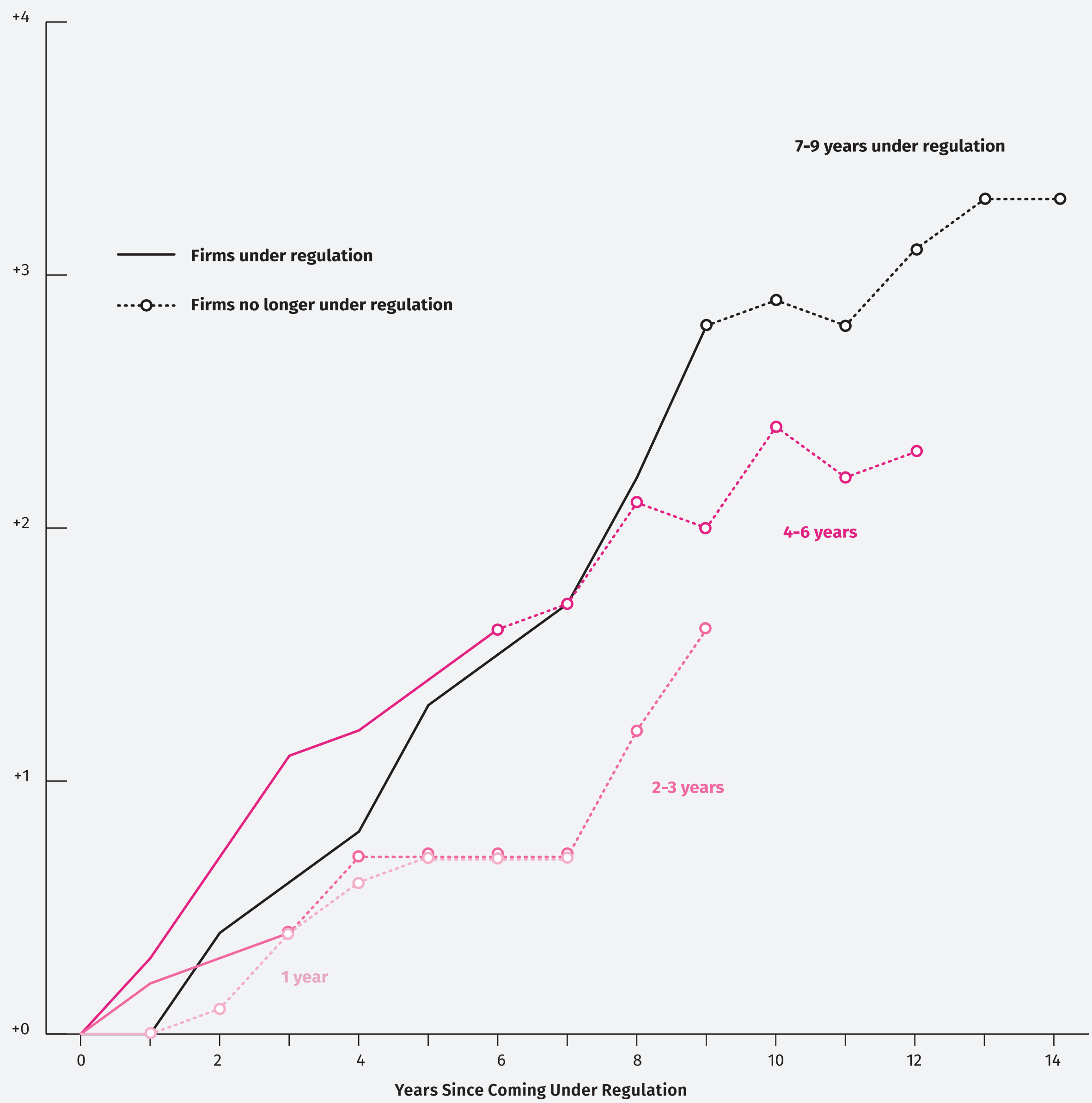
FIGURE 2 | Employment Cost Index During and After Great Recession



Gray Shading Shows Official Dates of Recessionary Period Data Source: U.S. Bureau of Labor Statistics, retrieved July 18, 2018.

FIGURE 3 | The Persistent Effect of Temporary Affirmative Action

Black employment share gain (percentage points)



Source: Miller, Conrad. 2017. "The Persistent Effect of Temporary Affirmative Action." American Economic Journal: Applied Economics, 9 (3): 152-90. Adapted from Figure 4 as appearing in "From the archives: Can temporary affirmative action policies have lasting effects?" by Tim Hyde, April 26, 2018, aeaweb.org/research/can-temporary-affirmative-action-policies-have-lasting-effects-from-the-archives. Copyright American Economic Association; reproduced with permission of the American Economic Journal: Applied Economics.

If investments made in innovative affirmative action recruiting practices can sustainably pay out for years, why wouldn't the same be possible from recruiting innovations that target other under-tapped talent?

He finds that in these organizations, the proportion of the workforce that is African-American grows in response to becoming a federal contractor and needing to meet affirmative action requirements. This is expected. But unexpected is Miller's finding that the pace of growth of African-American representation in these companies continues after they have stopped being federal contractors and no longer fall under affirmative action regulations.

Miller's research suggests that organizations accumulate "screening capital" while regulated by affirmative action. Regulation gives these employers the need to invest in improved practices for screening potential employees. The positive effect on diverse hiring then outlasts the regulatory period, as this investment in organizational learning continues to pay out. (See Figure 3.) "It's figuring out how to recruit and screen applicants from potentially new sources," Miller explained. "Are there teachers you need to talk to or administrators you need to know to find the right candidates or get the right position at a career fair?" (aeaweb.org/research/can-temporary-affirmative-action-policies-have-lasting-effects-from-the-archives, April 26, 2018.)

Other Under-Tapped Talent Pools

The implications of Miller's research also could spur broader recruiting optimism. If investments made in innovative affirmative action recruiting practices can sustainably pay out for years, why wouldn't the same be possible from recruiting innovations that target other under-tapped talent?

Emerging initiatives in technology and technology-intensive industries to actively recruit and hire individuals on the autism spectrum may be another case in point. A CBS News story from earlier this year highlights how some companies, including SAP and Microsoft, are creating new recruitment, screening, selection, orientation and onboarding practices. In addition, preparatory supervisor training and mentorship programs are helping to build a workplace inclusive of individuals who are neurodiverse (Feb. 11, 2018, 9:09 AM, cbsnews.com/news/the-growing-acceptance-of-autism-in-the-workplace/).

DXC Technology has made public materials developed for its DXC Dandelion Program that targets the hiring of people with autism in Australia. These two dozen short documents (hosted online by ILR's Yang-Tan Institute on Employment and Disability at digitalcommons.ilr.cornell.edu/dandelionprogram/) include organization and implementation documents and diagrams that can help an employer support and promote neurodiversity from recruitment through onboarding and job progression.

Academic research assessing the success of these innovative programs will be some time in coming. For now, anecdotal evidence is positive as the commitment of companies continues and programs are expanded.

Where Is the Last Place You Would Look?

Talented employees are always valuable. In times of tight labor markets, finding skilled talent can get even more difficult, increasing the payoff from an investment in innovative "screening capital." Without innovating recruitment systems, how will you find the talent you're missing? As the adage says, what you're trying to find will always be in the last place you look. **WS**

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