Attracting Talented Workers by Reducing Application Costs in Ethiopia

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Sector(s): Firms, Labor Markets

Location: Addis Ababa, Ethiopia

Sample: 4689 jobseekers

Target group: Job seekers

Outcome of interest: Employment

Intervention type: Monetary incentives

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While attracting talented workers is often a challenge for firms, skilled candidates can also face many hurdles in their job search, including high application costs. Researchers partnered with an employer in Addis Ababa to assess the impact of a small monetary incentive to apply for a job or a higher wage offer on the quality of applicants to a vacancy for a clerical position. Both of these changes increased the quality of applicants by similar amounts. Furthermore, the increase in quality of the applicant pool among those who received a monetary incentive was largely driven by applicants that do not usually perform well in the labor market, such as women, unemployed and less-experienced jobseekers.

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Finding workers with the right ability and skills can be challenging and costly, both in terms of time and money, for firms. Firms often use a costly application process in an effort to discourage candidates who would not be a good fit from applying and thereby improve the quality of the applicant pool. This can create a significant barrier to quality employment for job seekers, and those who face financial constraints may only able to apply to a limited number of vacancies.

A small number of studies suggest that programs that give subsidies to job seekers to offset the costs of looking for a job increase job search intensity and improve employment outcomes. However, limited evidence exists on the impact of firms directly varying applications costs. This evaluation looked at the impact of offering either a small monetary incentive to apply for a job or offering a higher wage on application rates and the quality of the applicant pool.

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This study took place in Addis Ababa, the capital of Ethiopia. Ethiopia's economy has experienced high growth rates in recent decades, averaging 8.9 percent per year between 2000 and 2019. As the country's industrial and services sectors have increased, employers are looking for more skilled workers, especially in urban areas such as Addis Ababa.

Despite improvements in education and growing numbers of university and vocational training graduates, firms face difficulties in finding qualified workers. In 2017, a study of 196 firms showed that 35 percent of managers mentioned that finding workers with the right skills is the most pressing human resources problem for their firm. About 60 percent of managers reported that offering higher wages was the most effective way to improve the quality of recruits. Application incentives are mentioned rarely and are not frequently used by firms.

In parallel, with Ethiopia's labor force almost doubling in the past twenty years, promoting employment opportunities and efficiently connecting workers with employers has become a priority issue. However, many job seekers in Ethiopia still struggle to find a job. One challenge to job search is the associated costs, such as transportation expenses. A recent study estimated that for people who were actively looking for work in Addis Ababa, the cost of searching and applying for jobs made up one quarter of their weekly expenses.

The program in this evaluation targeted job candidates with a university degree or a vocational diploma. Job seekers participating in the study were 26 years old on average, 80 percent of them were men, and they had an average of 28 months of wage-work experience.



People walking on a street in Addis Ababa, Ethiopia.

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In partnership with an employer in Addis Ababa, researchers conducted a randomized evaluation to test the impact of either offering job seekers a monetary incentive to apply for a vacancy or doubling the position's wage on the firm's ability to attract more talented applicants.

Clerical positions were advertised in the local newspaper and the main job vacancy boards in the city over a period of 16 weeks. When job seekers (totaling 4,689 people) called to get more information about the position and application process, they were randomly assigned on a rolling basis every two weeks into one of three groups of equal size:

- *Application incentive:* Callers were told that the position paid a wage of ETB 1,600 (USD 74 at the time of the evaluation) per month and that, if they completed the testing session part of the application process, they would receive a monetary payment of ETB 100 (USD 4.5 at the time of the evaluation). This payment was to reimburse the cost of applying.
- *High wage:* Callers were told that the position paid a wage of ETB 3,200 (USD 148 at the time of the evaluation) per month and were not offered any application incentive.
- *Comparison group:* Callers were told that the job paid ETB 1,600 and were not offered any application incentive.

For job seekers who followed through to the next step, they participated in a testing session that measured various cognitive and non-cognitive skills. The employer offered three jobs every two weeks. For each position, the employer interviewed the five applicants with the highest score cognitive ability score and selected to whom they would offer a position.

To estimate the impact of the interventions on applicants' efforts to find other jobs, the research team also called back all job seekers four weeks after the job seekers' initial phone inquiry to ask about their job search activities from the past month.

Finally, researchers studied the preferences and expectations of local firm managers and explored whether the monetary application incentive or doubling the salary improved the quality of the applicant pool in the eyes of these managers. To study this, the research team gave these managers the task of ranking candidates from the three randomly-assigned groups, influencing which candidates would receive an invitation to apply to that manager's firm.

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Offering job seekers a small monetary incentive to apply for a job improved the quality of applicants. The research team suggests that the incentive increased the quality of the applicant pool because application costs are large, and over time it tends to be the job seekers with more skills who face higher application costs.

Quality of the applicant pool: The application incentive increased the average cognitive score of the applicant pool by 0.25 points and increased average GPA scores by 0.1 standard deviations relative to the comparison group. The high-wage offer also attracted an applicant pool with higher cognitive ability. The application incentive did not influence the average non-cognitive ability or level of work experience of the applicants pool, whereas the high wage offer did increase the median non-cognitive ability.

Drivers of applicant' quality: The improvement generated by the incentive is driven by women and by jobseekers who are unemployed and less-experienced. This suggests that this intervention mostly taps the pool of jobseekers who are unlikely to quickly secure good positions otherwise. In fact, further analyses show that the efficiency of the application incentive increases significantly when targeted to those demographics.

Application rates: Both interventions increased the likelihood that job seekers who called to inquire about the position would apply. Individuals in the incentive group were 11.5 percentage points more likely to apply for the position (a 27 percent increase from a base of 41 percent in the comparison group) than individuals in the comparison group. Individuals in the high wage group were 18.7 percentage points more likely to apply to the position (a 46 percent increase from a base of 41 percent in the comparison group). Hence the application incentive increased applications by about two thirds of the increase in applications from doubling the wage, but at a much lower cost – for one month of employment, the high wage offer cost 16 times more than the application incentive.

Job search activity and outcomes: The application incentive did not distort individuals' search for other jobs or impact their labor market outcomes. The small cash incentive ensured that applying to the job related to this evaluation did not deplete applicants' resources to search for other positions. On the other hand, individuals in the high wage group had worse outcomes than the comparison group: they obtained fewer interviews and job offers and were about 2 percentage points less likely to be working in a new job a month after the initial phone call. One possible explanation is that the individuals that were prompted to apply to the job by the higher wage offer ran out of resources to search for other jobs. The high wage offer also had a negative effect on search efforts and was associated with a 10 percent decrease in the number of visits to the job vacancy board.

Managers preferences and expectations: Firm managers underestimated the benefits of the application incentive: 66 percent of managers underestimated the cognitive scores among the pool of applicants who received the incentive. This suggests that providing information to managers about the value of offering monetary incentives to job applicants may be a cost-effective intervention in this context.

Further research that assesses the interaction of incentives with interventions that improve the quality of screening would be valuable.