

What do companies tell us about the barriers to hiring?

For many years, INSEE has been asking enterprises about past and future changes to their workforce, the existence of recruitment difficulties and production constraints due to a lack of staff. Since January 2017, this information has been completed by a number of new questions that reveal the presence of barriers to hiring felt by companies and provide information about their type. What transpires is that half of enterprises are confronted with barriers at the time of hiring workers on open-ended contracts or fixed-term contracts of long duration, a third do not encounter any barriers and the others do not feel that this issue concerns them, probably because they have not recruited any new employees recently. Hiring is held back by uncertainty about the economic situation (barrier mentioned by 28% of enterprises), difficulty in finding skilled workers (27% of enterprises), employment costs that are deemed too high (23% of enterprises) and labour market regulation (18% of enterprises).

Since January 2017, new questions have been added to the business tendency survey to evaluate the barriers to hiring felt by companies. These questions complete those on the workforce that have already existed for many years, in particular on past and future changes to the workforce, difficulties experienced with recruitment or the production constraints linked to a lack of employees.

Recruitment difficulties have increased since the beginning of 2016

Since the beginning of 2016 the steady recovery in employment in the non-farm market sectors has been accompanied by a slight increase in difficulties recruiting staff encountered by businesses (*Graph 1*). In April 2017, 31% of enterprises in industry, services and construction stated that they experienced difficulties recruiting staff, compared to 26% at the beginning of 2016.

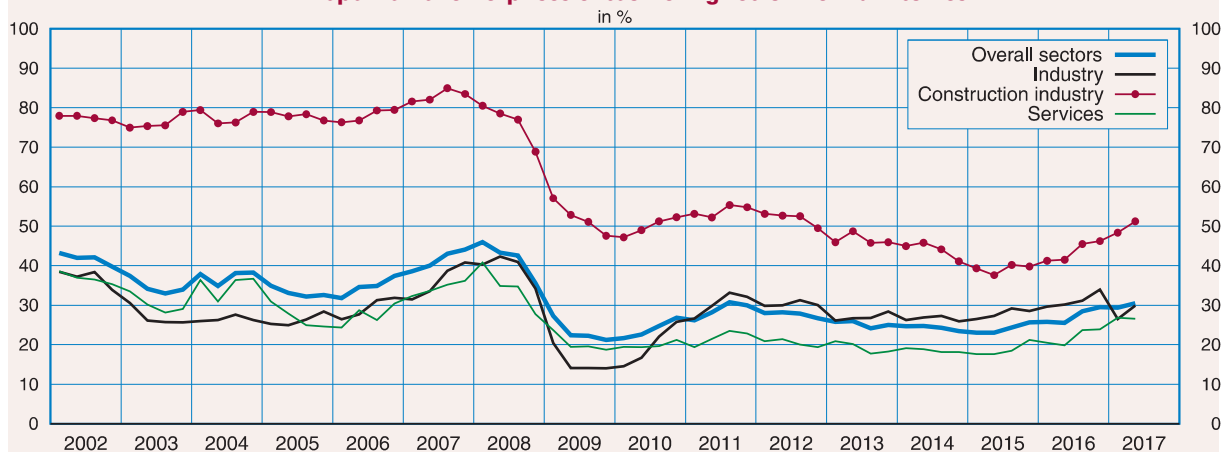
It was mainly service companies that contributed to the increase: 27% of them reported encountering hiring difficulties in April 2017, compared to 21% at the beginning of 2016. The level of recruitment difficulties, however, remains below the average prior to 2008 (34%). Recruitment difficulties have also intensified in construction industry companies (51% in April 2017 compared to 41% at the beginning of 2016), but again they remain lower than the average before 2008 (64%). In industry, this proportion has practically returned to its average pre-2008 level (30%).

The increase in recruitment difficulties implies that a growing proportion of enterprises are not managing to develop their business as much as they would like. Thus the proportion of enterprises that have seen their activity hampered by a lack of employees has increased since 2016, at the same time as the proportion that have experienced recruitment difficulties (*Graph 2*): at the beginning of 2017, this figure passed the 10% mark once again to reach its highest level since October 2008. The increase is significant in services where this proportion is at its highest since the end of 2008. In the construction sector, the proportion of enterprises affected by these difficulties has risen, but remains substantially lower than its pre-crisis level. In industry, since 2011 this proportion has been hovering slightly above the average measured prior to 2008.

New questions in the business tendency survey on barriers to hiring

An increase in recruitment difficulties is expected in phases when activity and employment are picking up, as enterprises need to hire more people than before. However, the intensity of the link between employment growth and recruitment difficulties can vary from one recovery phase to another, in particular according to the nature of the barriers that business leaders encounter in their hiring processes. The decision to hire new employees therefore depends on the match between the labour supply and the skills sought by the enterprise, the level of the cost of labour and the constraints linked to labour regulations.

1 - Proportion of enterprises encountering recruitment difficulties



Note: like any business tendency survey variable concerning employment, the results are weighted by the size of the workforce in the enterprises surveyed; for example, in April 2017, the industrial companies reporting recruitment difficulties employed 30% of the workforce in the sector.

Source: INSEE, business tendency surveys

To measure the scale of these different parameters, INSEE has added some new questions to the business tendency surveys (Table 1). Since January 2017, approximately ten thousand enterprises in the services, industry and construction sectors have been providing information each quarter on the existence and nature of the main barriers which, according to them, prevent them from hiring more workers on open-ended contracts or fixed-term contracts of long duration. The scope of the survey covers about 70% of employment in the non-farm market sector excluding trade and other service activities.

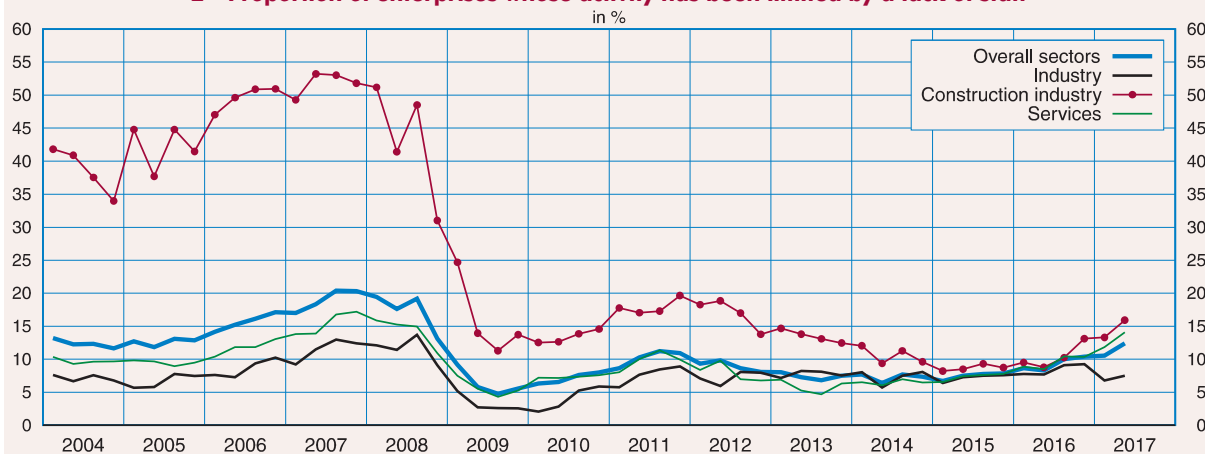
Almost half of companies report barriers to hiring

Almost half (47%) of enterprises in industry, services and construction report that they encounter barriers that prevent them from hiring more workers on

open-ended contracts or fixed-term contracts of long duration (Table 2). Three quarters of enterprises in the construction sector report the existence of barriers to hiring on open-ended contracts or fixed-term contracts of long duration (73%); this is the case considerably less often in industry (52%) and services (43%).

Across all sectors, a third (33%) of enterprises state that they do not encounter any barriers. Yet they are no less concerned by a hiring process, in fact there are even more of them than the average declaring that they have increased their workforce (Graph 3). Finally, a fifth of enterprises do not feel concerned (responding "not applicable"), probably because they have no plans to hire workers on open-ended contracts or fixed-term contracts of long duration in the short term; in fact, they report a stable or falling workforce more often than the other enterprises, and the corresponding balance of opinion fell over the past year. On this

2 - Proportion of enterprises whose activity has been limited by a lack of staff



Note: for each sector, the results are weighted by the turnover of the enterprises surveyed; the series covering all the sectors is obtained by calculating an average of the three sector series weighted by workforce.

Source: INSEE, business tendency surveys

Table 1 - New questions asked in the business tendency surveys

Are there any barriers that are currently preventing you from hiring more workers on open-ended contracts or fixed-term contracts of long duration?

YES NO Not applicable

If YES, what are the main barriers?

- uncertainty about the economic situation
- unavailability of skilled labour
- recruitment costs
- social contributions too high
- wage level too high
- direct financial costs of dismissals
- legal risks connected to dismissal proceedings
- uncertainties as to whether labour legislation will remain in place
- other

Table 2 - Existence of barriers to hiring on open-ended contracts or fixed-term contracts of long duration

	in %		
	YES	NO	Not applicable
Industry	52	28	20
Services	43	36	21
Construction industry	73	20	6
All sectors	47	33	20

Note: the results are weighted by the workforces of the enterprises surveyed

Source: INSEE, business tendency surveys of April 2017

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assumption, among enterprises likely to hire in the short term, 59% report barriers to hiring on open-ended or long-term fixed contracts.

Uncertainty of the economic situation and unavailability of skilled labour: two barriers to hiring mentioned more often

Across all sectors, the main barriers to hiring mentioned by enterprises (Table 3a) are uncertainty linked to the economic situation (28%) and unavailability of skilled labour (27%)¹. The construction industry stands out once again, as uncertainties about the economic situation play a significantly bigger role in this sector. On the other hand, the responses given by industrial and service enterprises are relatively homogeneous.

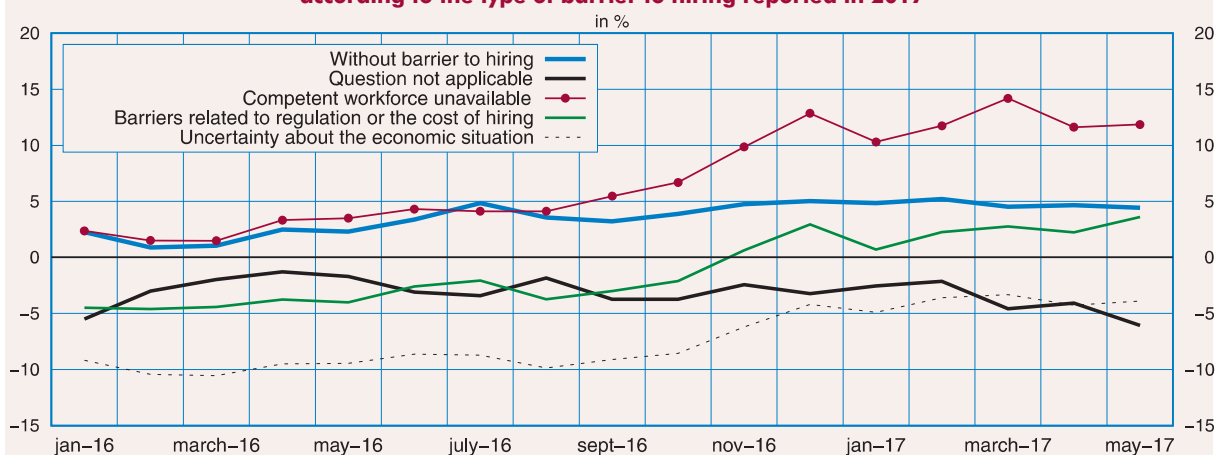
1. In a survey conducted between June and September 2014, the Banque de France questioned enterprises on their labour management practices over the previous three years, providing a first measurement of the scale of the barriers to hiring. The levels that were reported were substantially higher than those presented in Table 3 here, but the classification according to frequency of the barriers to hiring is relatively similar. The discrepancy in the levels could be due to the difference in the way the questions were asked: in the Banque de France survey, the enterprise could indicate whether a criterion had an "influence" or a "strong influence" on hiring. The results obtained here are relatively close to those obtained for "strong influences" on hiring alone in the earlier surveys.

The barrier linked to the cost of labour most often mentioned is that of the level of social contributions (18%) while the issue of high wage levels is raised less often (7%). Barriers to hiring linked to legislation governing the labour market seem to play a role on a comparable scale, with the legal risks relating to dismissals (14%) being mentioned more often than their cost (10%).

Contrasting situations regarding barriers to hiring

Companies hampered in their hiring mention 2.8 different barriers on average. Certain barriers seem to be particularly connected, insofar as companies tend to mention them together. In particular, the three responses concerning the level of regulation (uncertainties as to whether labour legislation will remain in place, dismissal costs and the legal risks involved in dismissing staff) are very often similar: two thirds of companies that have reported at least one of these barriers have also reported a second one and 30% mention all three. Regarding the barriers linked to the cost of labour (cost of recruitment, level of social contributions and wage levels that are too high), the different responses are also clearly correlated: 72% of firms that say that recruitment costs are too high also report being held back by the level of social contributions. Similarly, 65% of enterprises that consider wage levels too high also state that social

3 - Balance of opinion on past changes in the workforce according to the type of barrier to hiring reported in 2017



Note: statistics calculated without weighting by the enterprises' workforces, but controlling for the respective weight of the scope of the three business tendency surveys used (services, industry and construction industry).

Source: INSEE, business tendency surveys

contributions are too high.

Table 3a - Proportion of enterprises mentioning each barrier to hiring

	Uncertainty of economic situation	Skilled labour unavailable	Recruitment costs	Social contributions too high	Wage level too high	Dismissal costs	Legal risks linked to dismissals	Labour legislation remaining in place	Other
Industry	34	29	5	17	5	12	14	11	5
Services	24	24	6	17	7	9	13	10	3
Construction industry	54	41	9	32	7	22	26	21	4
All sectors	28	27	6	18	7	10	14	11	4

How to read it: industrial companies reporting barriers to hiring and mentioning uncertainty about the economic situation as one of the main barriers employ 34% of the workforce in the sector.

Notes: the results are weighted by the workforces of the enterprises surveyed. Several modalities are possible for the same enterprise.

Source: INSEE, business tendency surveys of April 2017

Companies' responses can therefore be summarised by aggregating all the modalities relating to costs on one side, those relating to regulation on another and retaining the responses on the "unavailability of skilled labour" and the "uncertainty of the economic situation" as they are (Table 3b).

The correlation between these different groups (Table 4) reveals contrasting situations for enterprises regarding the barriers that limit their ability to hire workers. First of all, enterprises that have difficulties recruiting skilled labour do not particularly mention barriers connected to cost or regulation (zero correlation), and are held back considerably less than others by uncertainty about the economic situation (negative correlation). Then enterprises that report barriers due to regulation are often the same ones that say labour costs are too high. They report a demand constraint ("uncertainty about the economic situation") a little more often than average, although the correlation between the response on the uncertainty of the economic situation and those on the barriers linked to costs (0.14) or regulation (0.13) is relatively low.

Barriers linked to a lack of skilled labour hold back production more

Enterprises that report a problem of availability of skilled labour are most often in a job creation dynamic, with balances of opinion on past workforce that are higher than average (Graph 3). Most of them also report recruitment difficulties (84% of them, compared to an average of 31%; Table 5).

In addition, 45% state that their activity is limited by a lack of employees and that they therefore suffer production constraints due to employment, compared to an average of 11% (Table 6).

Modelling with individual data confirms that the production constraints due to a lack of employees are mainly linked to difficulties in recruiting skilled labour (Table 7). Although barriers due to costs and regulation also increase production constraints, their influence is significantly more limited.

Table 3b - Proportion of enterprises mentioning different types of barrier to hiring

	in %			
	Uncertainty of economic situation	Skilled labour unavailable	Barriers related to costs	Barriers related to regulation
Industry	34	29	19	19
Services	24	24	22	16
Construction	54	41	35	34
All sectors	28	27	23	18

How to read it: industrial companies reporting barriers to hiring linked to regulation employ 19% of the workforce in the sector. Notes: the results are weighted by the workforces of the enterprises surveyed. Several modalities are possible for the same enterprise.

Source: INSEE, business tendency surveys of April 2017

Table 4 - Correlation of the responses to the different barriers to hiring

	Uncertainty of economic situation	Skilled labour unavailable	Barriers related to costs	Barriers related to regulation
Uncertainty of economic situation	1	-0.34	0.14	0.13
Skilled labour unavailable	-0.34	1	0.00	-0.03
Barriers related to costs	0.14	0.00	1	0.40
Barriers related to regulation	0.13	-0.03	0.40	1

Source: INSEE, business tendency surveys of April 2017

Table 5 - Proportion of enterprises stating they have recruitment difficulties, according to their response on the existence of barriers to hiring

	in %						
	Barriers to hiring	Uncertainty of economic situation	Skilled labour unavailable	Barriers related to costs	Barriers related to regulation	No barriers to hiring	Not applicable
Industry	52	40	77	55	51	7	9
Services	57	42	85	58	53	9	8
Construction	61	51	90	65	61	18	24
All sectors	56	42	84	58	53	9	10

How to read it: 52% of employment in industrial companies reporting barriers to hiring is located in companies that experience recruitment difficulties.

Source: INSEE, business tendency surveys of April 2017

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In fact, enterprises that report barriers to hiring due to costs (of recruitment, wages, dismissals) or regulation report recruitment difficulties and production limited by employment less often than companies that struggle to hire skilled workers.

Finally, enterprises that report more demand constraints (“uncertainty about the economic situation”) are in a dynamic that is less favourable to employment than the average; they experience fewer recruitment difficulties or production constraints than the other two categories of companies encountering barriers to hiring, but more than those that do not report any barriers. ■

Table 6 – Proportion of enterprises whose activity is limited by a lack of employees, according to their response on the existence of barriers to hiring

	in %						
	Barriers to hiring	Uncertainty of economic situation	Skilled labour unavailable	Barriers related to costs	Barriers related to regulation	No barriers to hiring	Not applicable
Industry	19	11	30	23	20	2	1
Services	29	11	50	24	21	4	1
Construction	22	13	35	23	21	4	11
All sectors	27	11	45	24	21	4	2

How to read it: in 19% of industrial companies reporting barriers to hiring, activity has been limited by the insufficiency of a workforce that is difficult to increase.

Table 7 - Influence of the barriers to hiring on production constraints

Barriers to hiring mentioning by enterprises	Coefficient	Standard deviation	P-value	Test
Uncertainty of economic situation	-0.47	0.06	0.00	***
Skilled labour unavailable	1.27	0.07	0.00	***
Barriers related to costs	0.15	0.06	0.02	**
Barriers related to regulation	0.14	0.06	0.03	**

Note: Modelling of enterprises’ responses to the question “Is your activity limited by the insufficiency of a workforce that is difficult to increase?” according to the responses to the questions on the existence of barriers to hiring. The model is a probit model and it takes into account controls on the size of the sector of activity (results not shown).

Source: INSEE, business tendency surveys of April 2017