A Twenty-First-Century Social Contract between Employers and Job Candidates

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In the United States, there are currently 5.6 million unfilled job openings and 8.7 million people available for work. There is clearly a mismatch between the skills and qualifications that employers are seeking and those that are possessed by today’s job seekers.

For this fundamental reason and others, there is an opportunity for employers to rethink their roles and responsibility in educating the US workforce and to unlock a new stream of qualified talent from which to draw employees. That is, investments in education and training should be extended to candidates who have applied for jobs but are lacking certain competencies that the jobs require. It will serve employers’ long-term economic interests and help to establish a new “social contract” between employers and employee candidates that is necessary for twenty-first-century business operations.

ORIGINS OF THE UNWRITTEN EMPLOYMENT CONTRACT

In the latter half of the twentieth century, there often existed an unwritten social/employment contract between large corporate employers and the workers they employed. In return for company loyalty and lifetime commitment, employees would receive stable employment, extended training that combined specific skill development with cultural philosophies on “the company way,” and generous benefits in retirement, all in return for years of dedicated service. Job hopping was viewed as a negative on a resume, and hence employee turnover remained low.

Today, the median tenure of wage and salary workers nationwide is 4.2 years. It is fair to say that any form of the traditional “employment/social contract” is largely a thing of the past. Globalization and the “gig” economy have replaced worker stability and longevity. We now have a fluid workforce of employees who often remain with an employer only for a few years; this is especially true of those in entry-level and middle-skilled positions. High turnover—and the high business costs that high turnover incurs—has become accepted as “the cost of doing business.” Companies are wary of investing in employee training and education for fear that they will never recoup their investments.

ANTICIPATING AND ADAPTING TO CHANGE

Traditional approaches to recruiting, interviewing, and hiring in this Information
Age cannot keep pace with the speed with which business changes today. Compounding this impediment to growth, the "talent pipeline" that traditional educational institutions are supposed to maintain is inadequate for supplying the rapidly evolving competencies that employers now seek. While the number of high school graduates is projected to remain relatively steady in the next two to three years, longer-term demographic realities show shrinking numbers of high school grads in aggregate. Indeed, declining high school enrollments will be particularly acute in the Midwest. Although more than 85 percent of students who graduate from high school eventually enroll in college, over one-third of those students never earn a credential. Additionally, half of all college students take remedial courses. It's easy to see why the nation has a growing "skills gap," especially at the entry-level and middle-skilled tier.

Presented here is a relatively new concept for employers to explore—one that draws up an exciting and practical twenty-first-century social contract between employers and the workforce at large. It signals a time for employers to rethink their roles and responsibilities in educating the US workforce, notably the front-line workers and job candidates who constitute such a large share of the workforce today. Such investments in education and training could be shared by employers and even across industries and should be extended to candidates who have applied for jobs but are lacking the required competencies. This new concept will serve employers' long-term economic interests and help mitigate any negative consequences of not participating in the global knowledge economy.

The Need for a New Recruiting Model

The job market is hungry for work-ready professionals; unfortunately, myriad factors impede a steady flow of qualified job candidates into the entry and middle-skilled markets. This is because several converging issues are laying the foundation for a new system of workforce development, including job mobility, a widening skills gap, and a massive influx of unprepared graduates. As mentioned, the basic social contract of the mid-twentieth-century, characterized by loyalty and lifetime work at a single company, is no longer desired by employees or expected of employers. As the gap widens between the availability of qualified candidates and the number of jobs that need filling, employers grow tired of nonskilled applicants; the old recruiting model fails to meet today's skill demands.

Understanding the Costs of Employee Turnover

Employers are frequently absorbing the costs and challenges of this high turnover. According to Nation’s Restaurant News, the total US private-sector employee turnover rate in 2015 was 45.9 percent, while the restaurants and accommodations sectors were at 72.1 percent. Employers have historically focused on short-term goals for recruiting and training their entry- and mid-skilled candidates; this was the acceptable
way to meet demanding business goals. Unfortunately, such short-sightedness today merely perpetuates the skills gap, leaving little room for longer-term investment in individual candidates.

Rapid turnover is costly. Frequently hiring new employees presents several challenges and may be even more expensive than many employers realize. According to a University of California, Berkeley study, it costs $4,000, on average, beyond salary and wages to hire a new employee—and that figure rises to $7,000 when replacing management-level employees and professionals.\textsuperscript{12}

In a recent survey of Quick Service Restaurant (QSR) executives conducted by Penn Foster, more than 70 percent of respondents reported that their rate of turnover remained constant or increased between 2014 and 2015. Additionally, over a quarter of respondents reported that it costs more than $1,000 to hire and train a new hourly employee.

It’s clear that there are hard costs to frequent turnover, but there are also several other factors that are more difficult to measure. In the QSR sector, for example, these factors include increased food costs as a result of more waste from unskilled employees, lower productivity, and reduced customer satisfaction. These seemingly extraneous costs create a ripple effect that collectively sets the costs of frequent turnover even higher.

The Older, Linear Path of Education-to-Employment Is Not Working

The traditional route of education to employment—that of kindergarten through high school (K–12), and college (4 years)—is becoming less realistic for today’s young people. High schools across the nation aren’t preparing students for postsecondary success as well as they could be. A staggering 60 percent of first-year college students discover they aren’t ready for college-level work, and they require remedial coursework to catch up with their peers. Unfortunately, a majority of students who begin remedial coursework end up dropping out,\textsuperscript{13} while nationally these remedial courses end up costing students and their families nearly $1.3 billion each year.\textsuperscript{14}

Today, the typical college student looks nothing like he or she did as little as 20 years ago. For instance, recent data from the National Center for Education Statistics show that 74 percent of undergraduate students from the 2011–2012 academic year had at least one “nontraditional” characteristic.\textsuperscript{15} Researchers define these “nontraditional” characteristics as follows: being independent for financial aid purposes, having one or more dependents, being a single caregiver, not having a traditional high school diploma, delaying postsecondary enrollment, attending school part time, and/or being employed full time. Despite the “nontraditional” becoming the new norm, the structure and expectations of the traditional education-to-career path has been too rigid to adapt to this dynamically different student archetype.

The standard college track is also not necessarily enabling students with the skills employers are looking for; indeed, there is a gap between what students and employers view as adequate job preparedness. A study done by the Association of American Colleges and Universities found that for core soft skills like communications and critical thinking, students were more than twice as likely as employers to feel they were well prepared.\textsuperscript{16} In addition, a study from PayScale found that 90 percent of recent college grads felt they
were prepared for the workforce, whereas only half of hiring managers felt the college grads were prepared.\(^{17}\)

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To add to the picture, with the rising costs of postsecondary degrees, the return on investment for a college education is coming into question. It is well documented that Millennials are burdened with massive student debt.\(^{18}\) Meanwhile, we’re witnessing a growing acceptance of online learning as an alternative solution to programs at brand-name schools. In short, the traditional education route is looking less and less appealing in today’s employment marketplace.

Providing More Opportunities for Hourly Wage Workers to Help Fill the Gap

Employers are becoming more educated about their workforce potential. With the economy recovering and unemployment at a low 5 percent, employers must compete with one another to attract top-quality candidates. Indeed, quality employees are integral to providing good customer service and for increasing productivity. Furthermore, quality employees are more likely to be invested in the job and loyal to the company—factors that together contribute to the success of a business.

So, realizing this situation, employers are making the investment to attract quality employees. For example, they are offering more benefits for hourly employees in an effort to reduce turnover. HR strategies include different techniques to retain and motivate hourly workers, such as creating more career pathways and educational opportunities. Though training costs can be substantial, they can be offset by reduced turnover costs. Nevertheless, employers also recognize that “upskilling” does take time, and the added benefits to the business will not be gained overnight. Goals must be longer term and views must not be shortsighted.

Moving forward in time, it will become even more crucial for employers to keep their employees motivated, focused, and engaged if they are to remain competitive in the current economic landscape.

The “Gig” Economy

As noted, the concept of employee loyalty has drastically changed since the mid-twentieth century. Back then, there were large corporate training programs through which employers invested in their employees, offering skills training over time. Corporate giants like GE, IBM, and Xerox had residential programs that were structured to enroll and indoctrinate the workforce, preparing them for a lifetime of work at the company. But this model of workforce development is no longer profitable in today’s economy.\(^{19}\)

The gig economy, whereby employment is a series of short-term engagements, has given rise to the achievable possibility of flexible employment. In contrast to holding a single job for life, employees can float from job to job with the increasing portability of benefits like retirement, health care, and education. While previous generations expected to hold just one or a few jobs over the course of their lifetime, late Baby Boomers will hold 11.7
jobs and Millennials are projected to have 15 to 20 jobs in their lifetime.\textsuperscript{20}

\textbf{TURNING POINT: THE MORPHING OF EDUCATION AND EMPLOYMENT}

Although there is acute demand for work-ready entry-level workers, the current recruitment operating model has substantial built-in "value erosion" affecting both clients and the platform company providers. With the rise of the sharing and the gig economy, along with smartphone penetration, blended learning, and rapid app development changing the way we hire, myriad factors are converging to set the stage for a new pattern of company recruiting and hiring for entry-level employment. Examples of companies that already support the new hiring systems are:

- Snagajob
- Skillfull
- RightSkill
- CareerBuilder
- Simply Hired
- GradStaff

If demand-driven workforce development progresses to the point where private-sector hiring managers begin seeking nontraditional candidates through alternative recruiting techniques, this model will pose a huge threat to the traditional academic credentialing system. We would expect this new system to be a dynamic, constantly adapting organism, able to scale up and down, and train up and down, thereby matching the demand and supply sides of the labor market.

In the past, the hiring process conducted by chief learning officers and recruiting managers was siloed and linear. Today, though, companies are investing in reworking the prehiring process to make them much more collaborative and engaging. With a focus on providing training to prehire candidates and hourly workers, these companies see the potential in creating their own educated workforces. Recruiting, training, hiring, and education is morphing into a single entity, extending beyond the once reserved perk for higher-level employees.

\textbf{THE FUTURE: EMPLOYERS INVEST IN JOB CANDIDATES}

The conclusion is that employers need to stop thinking of education and recruiting as mutually exclusive. Companies should consider packaging recruiting and education together as an on-demand education and training that can be extended to candidates who apply for jobs but are initially rejected.

As graduates find they need more relevant skills in order to find employment, they are returning to massive open online courses (MOOCs), code camps, micro-credentials, and online learning to acquire these specific, up-to-date skills. Several code camps are able to update their curriculum in real time.
based on current job openings. Seeing this trend, employers are likewise stepping up and partnering with mini-programs that offer micro-credentials and badges as pathways for motivated candidates to gain the skills they need. Coursera and Udemy are great examples of the hot new EdTech companies teaming up with employers to create customized curriculums. Employers are able to screen a candidate’s skills while interviewing, which offers more targeted insight into the candidate.

Over time, this new job-market system could augment sections of academia by removing the intermediary for credentialing, especially in liberal arts programs. Employers will be able to rapidly recruit and assess huge pools of candidates not previously accessible via traditional recruiting channels. The model could help employers then cut the candidate pool in half through data and, along with competency-based assessments tailored to the employers’ needs, offer tremendous economic value by slashing recruiting costs. One great example of how this system is taking root is the 100,000 Opportunities Initiative, in which cities across the nation are asking youth organizations to prescreen young people before connecting them with entry-level work.

In industries with traditionally high turnover rates, such as quick-service restaurants and retail, it is especially important for companies to prioritize their employee development initiatives and to guide their employees toward management and onto growth tracks. Companies that make employee development an inherent part of their brand message often reap the benefits of reduced turnover and increased employee motivation.

Pipepline upskilling connects skills/credentials enhancement programs to leading recruiting platforms at point of need. With an overall interviews-per-hire ratio of 14:1 in the United States, this presents an opportunity to better monetize a subset of the “maybe” and “rejected” candidates to improve yields. The model represents a fundamental shift in the way employers view employees, but there are several variations on how to incentivize candidates to train for new skills.

**Changing the Response from “No” to “Not Yet”**

In the future, employers might work with education providers to catalog competencies that are necessary for the job and include an assessment of those competencies in the hiring process. When job candidates have competency or skills gaps, a talent management system could recommend a personalized learning path or provide a list of resources and coursework the candidate could use to increase skills. When the candidate gains those necessary skills, he or she is “fast-tracked” back to the hiring queue, which simultaneously increases the skills of the available workforce and opens previously closed doors for job candidates.

**UPSKILLING THE WORKFORCE**

Employers across sectors are collectively recognizing the need to step up and take part in upskilling the US workforce. Companies will need to work with education providers that have the ability to
rapidly train candidates and scale training to meet the needs of the labor market. By investing in candidates who have applied for jobs but are lacking the specific competencies, employers can establish a new “social contract” between employers and employees. This twenty-first-century dynamic will be necessary in order to expand the pool of qualified candidates with the work-ready skills employers seek now and into the future.

NOTES

2. https://www.bls.gov/news.release/tenure.nr0.htm
7. i4cp.
17. http://fosteredu.penfoster.edu/forecast-for-student-loans-burdened-for-life

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