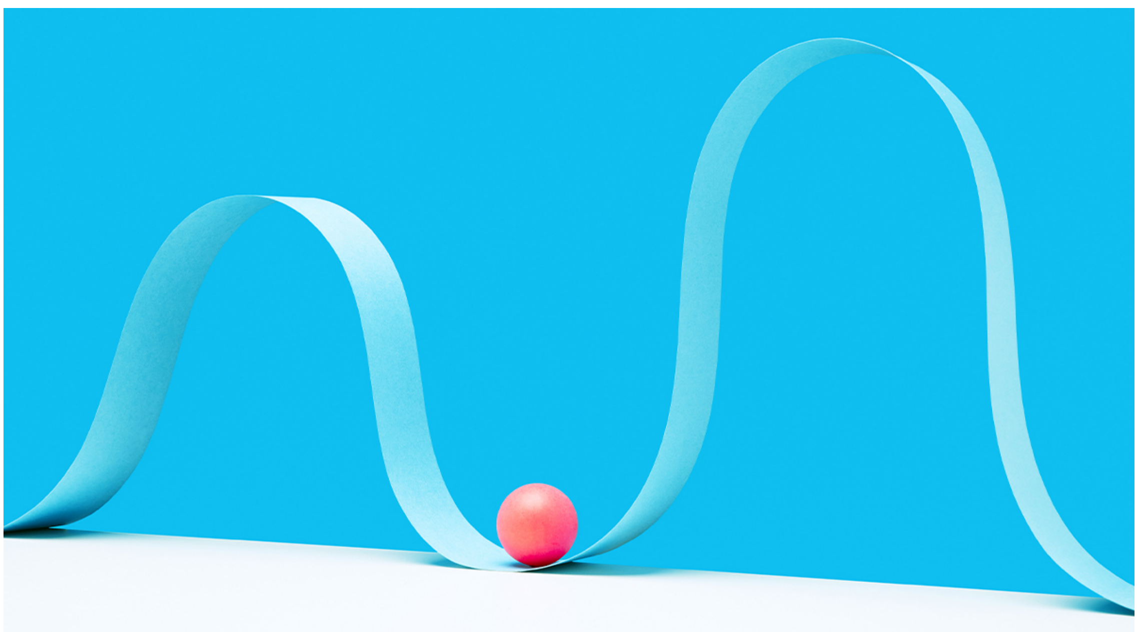
Harvard
Business
Review

Economics & Society

Why Hiring During Covid Is Different Than in Previous Downturns

by Atta Tarki, Tino Sanandaji, and Burt Francis

October 22, 2020



Summary. Many executives assume that their firm's power in the labor market correlates with the unemployment rate and general state of the economy. During a hot labor market, characterized as a candidate's market, they raise wages, hire fancy baristas for their... **more**

In the past, the intensity of competition for talent followed the ups and downs of the economic cycle. It's therefore unsurprising—given the Covid-19 downturn—to hear that a number of thought leaders are concluding that we are back to an employer's market. But a closer look at the data, as well as our frontline experience of recruiting executives, indicate that the situation is more complex. Assuming that we are in an employer's market could lead companies to miss out on talent they desperately need to boost their revenues – and help revive the economy. Here is a better way for employers to think about the current job market.

The Benefits of the Candidate's vs. Employer's Market Framework

Many executives assume that their firm's power in the labor market correlates with the unemployment rate and general state of the economy. During a hot labor market, characterized as a candidate's market, they raise wages, hire fancy baristas for their offices and shower candidates with gifts ranging from Moleskine notebooks to Swell water bottles. If it is an employer's market, they slash benefits and wages, try to drive a hard bargain, or turn their attention elsewhere if candidates balk at their strong-arm tactics.

Basic economic theory suggests this approach is a logical use of hiring budgets and management attention. Given that wages and salaries account for more than half of company costs, being frugal on compensation packages when companies are resource-strapped and have the negotiating upper hand can certainly make sense. And indeed, it has worked in the past. After the Great Recession of the previous decade, we worked with hiring managers who expected candidates to bend over backwards for a role. These hiring managers became less accommodating, often asked potential recruits to go through additional rounds of interviews, and generally paid less interest to how job applicants perceived their process. Often, they "got away" with this behavior because candidates were, indeed, desperate for an opportunity.

But several factors indicate that this downturn is different. And there are warning signs that hiring managers dusting off 2008's hiring playbook may destroy considerable value for their firms.

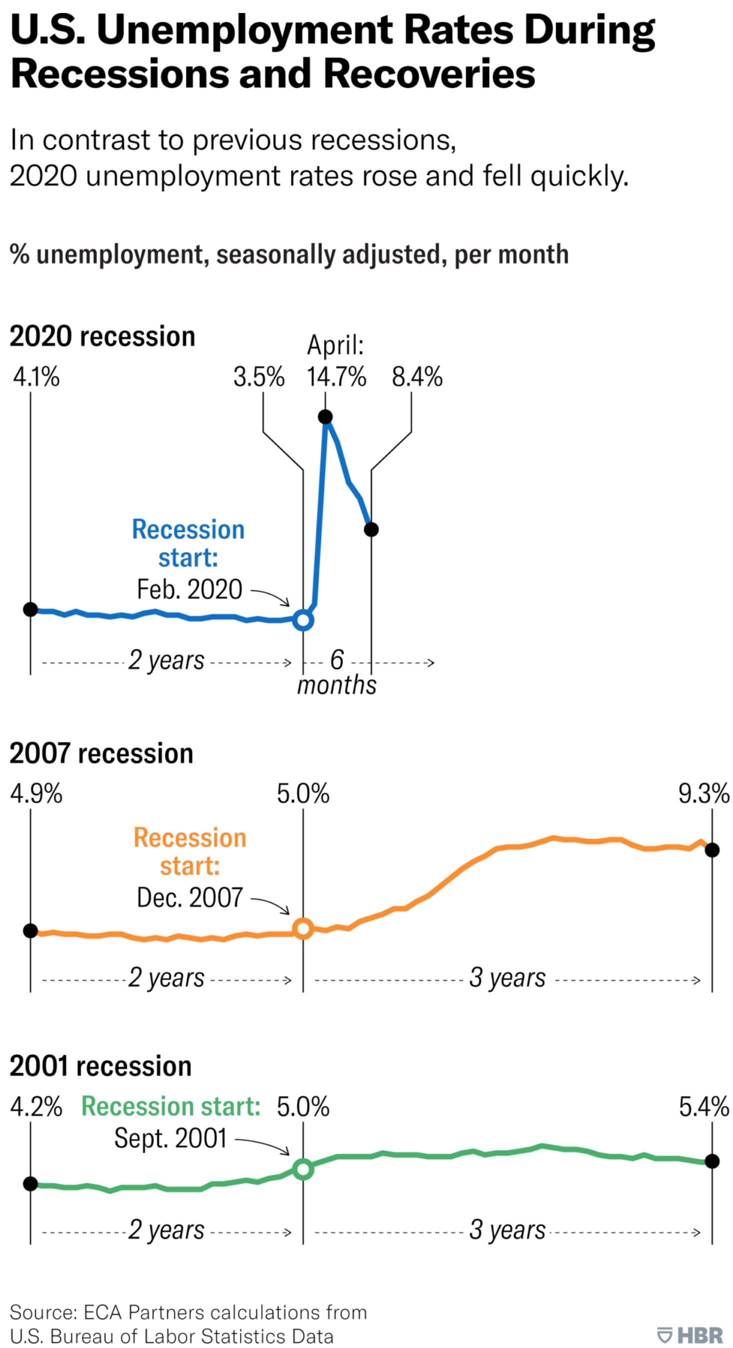
2020 Is Not 2008 All Over Again

For starters, the Covid job market is not like 2008, nor really like anything anyone has observed seen since the birth of modern capitalism.

In classical business cycles, the number of openings decrease and the number of applicants increase, or vice versa. But this crisis is one of disequilibrium and structural change. Some industries and firms are devastated while others thrive, are unaffected, or have been able to rebound exceptionally quickly. The job market is experiencing something resembling an accelerated rate of Schumpeterian creative destruction, with a high rate of jobs disappearing and reappearing at the same time, mixed with an unusual economic downturn.

There are a number of important anomalies that highlight differences between today's labor market and those of prior economic downturns:

First, unemployment went from 3.5% in February to 14.7% in April, rising more within the first two months of Covid than in the first two years of the Great Recession. Once unemployment surpassed nine percent in April of 2009, it took two and half years to bring it back below that level. By contrast, unemployment this year came back below nine percent within four months.



Second, given the risks of being exposed to Covid and in turn exposing other close ones to the virus, many roles requiring on-site presence are going unfilled. This has resulted in a number of employers increasing the pay of these workers – hardly a sign that it's an employer's market.

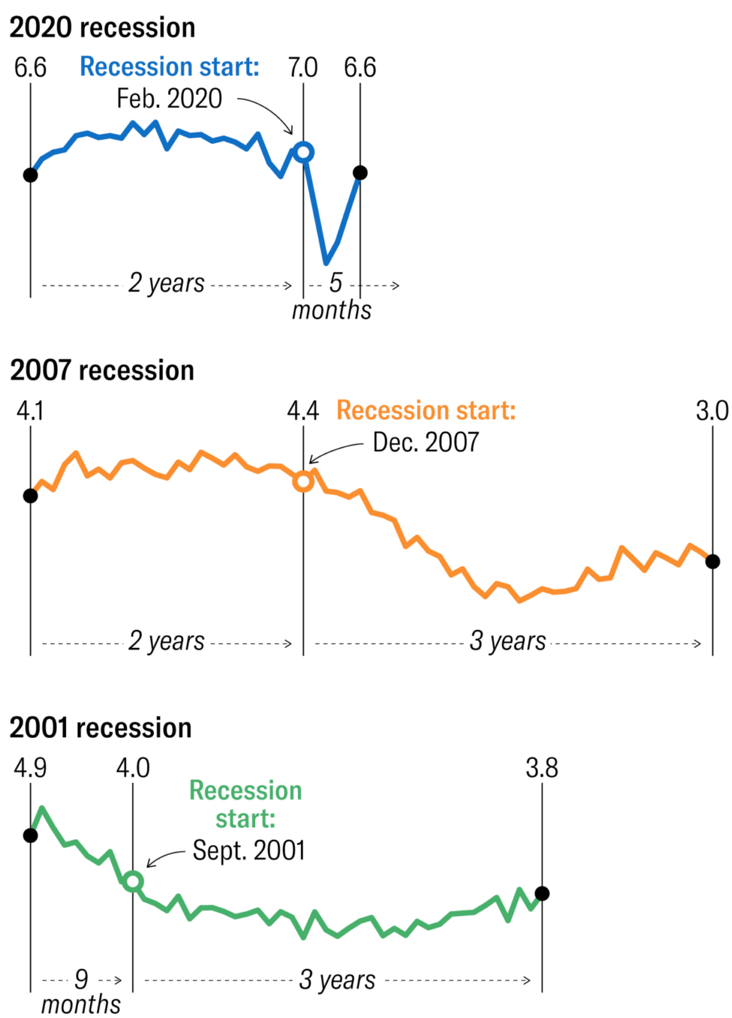
Third, many Americans are moving, but their moves are motivated by Covid-related factors and economic support from family rather than the attractiveness of local job markets. At our executive search firm, we have noticed that this is particularly true for senior roles. This is bad news for employers, since research shows that geographic mismatch between available talent and vacant roles, even within the same city, leads to fewer jobs being filled.

Fourth and most importantly, in both 2001 and 2008, the number of job openings quickly dropped below 4 million and continued to sink for months. This June, in contrast, we observed an *increase* to 5.9 million job openings, climbing to 6.6 million openings in July. This is double the 2009 average and more job openings than in any year from the time the data was first collected in 2000 until 2017, though fewer openings than in the prior two years.

U.S. Job Openings During Recessions and Recoveries

In contrast to previous recessions, the number of job openings remains high in 2020.

Total job openings per month, in millions



Source: ECA Partners calculations from U.S. Bureau of Labor Statistics data, excluding farm jobs

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In other words, the common narrative focuses on the fact that unemployment rates are at unprecedented high levels. However, a more important conclusion for employers might be that, given an economic crash, *job openings* have remained at unprecedented high levels.

A Better Way to Think About Your Hiring Efforts

Many employers will find that specific (micro) conditions in their industry and local labor market will be more helpful in determining how to adjust their talent strategies to the impact of Covid rather than following general (macro) trends.

Changes in unemployment rates will vary vastly by industry, geography, educational level, specific skills and a number of other factors. For example, the average hires-per-job-opening skyrocketed from 2.5 to 6.6 between 2007 and 2009 in the construction sector. In business services the equivalent increase was more modest, from 1.2 to 1.6.

So, don't interpret the high unemployment numbers as a sign that you are being wasteful if you keep up the fight for talent. Take the time to understand how much the right talent is worth to *you*. Calibrate this with how Covid is impacting talent availability for critical roles you are trying to fill. Think of the current job market as a sharp curve on a racetrack – one that appears only once a decade or so – this is where you can pass other companies competing for talent with you. Instead go back to making candidates feel valuable, keep sending them that Moleskine notebook, and use this rare chance to attract stars.

Editor's Note (1/5/21): A previous version of this story incorrectly stated the percentage that wages and salaries account for a company's cost. The error has been fixed.

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