



UNIVERSITAT  
JAUME I

## Decisions and barriers faced by young adults when entering the labor market

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Bachelor's Degree in Economics

Academic year: 2022-2023

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### ABSTRACT

The field of behavioral economics has gained importance in the latest years. Now, more than ever, researchers try to understand and explain how people think and behave, trying to predict outcomes based on psychological factors. In this paper we will review the findings of previous works that have tried to explain the factors that influence decisions when entering the labor market, understanding why they are important and to which extent they affect the outcomes. We will see how some common beliefs are contrary to field data, and what type of barriers are most commonly found when job-seeking.

KEY WORDS: behavioral economics, labor market, biases, discrimination, job satisfaction, education.

JEL Classification: D91, J23, J40.

## INDEX

Abstract

1. Introduction
2. Behavioral economics and its relevance on the labor sphere
3. Psychological factors on labor decisions
  - 3.1. Risk aversion and job insecurity
  - 3.2. Cognitive biases
  - 3.3. Social influences
4. Barriers faced when entering labor market
  - 4.1. Lack of experience
  - 4.2. Discrimination and biases based on race and gender
5. How incentives and rewards influence decisions
  - 5.1. Monetary incentives and their influence
  - 5.2. Non-monetary incentives and job satisfaction
6. Education and formation
  - 6.1. The importance of formal education
  - 6.2. Formation and practice programs
7. Conclusion
8. Bibliography

## 1 INTRODUCTION

When I think of my near future, the main worries that start to arise are related to the labor market, as right now all I have are uncertainties and questions. I believe psychology is a quite interesting and important part of everyone's life, as it is of key relevance to understand how people behave and why. Those are the reasons that impulse this project, analyzing the factors that influence young people when taking decisions about their future and job searching, to further understand what is coming next not only for me, but for most of the young adults that will inevitably enter the labor market.

When youngsters determine themselves to enter the labor market, they have several decisions to make. Are they looking for a stable position? Maybe they prefer a job where they are more comfortable socially? More salary or better benefits? These questions are only a tiny part of what everyone has to go through when looking for a job, specially the first time. We will review the existing literature on some of the factors to try to understand how these affect the decisions that are made during the transition to the labor market.

The rest of the dissertation will follow this structure: first, in section 2, we will comment on why behavioral economics is relevant on the labor sphere, reviewing its importance in the transition into adulthood and how a theoretical selfishness is contradicted by several practical studies. Then, in section 3, we will follow reviewing factors such as risk aversion, cognitive bias, and social influences, that affect labor-related decisions. After that, section 4 consists of the barriers that young adults can encounter when entering the labor market, pointing especially to the lack of experience and the perceptions of discrimination due to race or gender, perceptions that will be contradicted by interesting findings in different studies. Section 5 analyzes the incentives and rewards that companies have available to motivate their employees and gain competitive advantage when influencing decisions made by jobseekers to apply to their company or not. Then, section 6 allows us to review the importance of formal education and its influence in labor market outcomes, as well as the impact of apprenticeships for young adults. Last but not least, section 7 serves as a conclusion, wrapping up all the information discussed through this paper.

Entering the labor market is a critical stage in an individual's transition into adulthood and can determine someone's life trajectory on the long-term. If the transition into the labor market is not smooth, young adults will find difficulties when achieving other relevant milestones in adulthood like marriage or home ownership (Xenos et al., 2007).

Research conducted by Yeung & Rauscher (2014) shows that acquiring employment early is a critical gateway to productive human capital and network accumulation, being both closely related to future labor market attainment.

Other studies, such as Furstenberg (2010) and Yeung, Alipio, & Furstenberg (2013) have argued that achieving a successful transition into the labor market is necessary for young adults to gain economic autonomy and a sense of social and self-identity. A difficult transition marked by unemployment has a long-lasting negative effect on an individual's career trajectory (Kawaguchi & Murao, 2014)

From the perspective of the enterprises, Bewley (1999) affirms that firms invest significant resources to treat their employees well, paying high wages to encourage hard work and avoiding wage cuts as they fear the negative consequences on the employee motivation, while also providing other benefits hoping that those keep their employees satisfied.

This should not be the case in the standard model of economics, where firms do not need to care about fairness and treating employees well makes no sense in the business model, as any interaction between a firm and an employee will end at some point: it is finite.

Different studies have however contradicted the self-interest that is presumed to exist in finite interaction between the employer and the employee. One of the experiments, where individuals are given certain tasks to analyze how they react and behave, conducted in these studies is, for example, an ultimatum game by Güth, Schmittberger & Schwarze (1982), where two players have to agree on how they divide a fixed sum of money. The experiment itself is quite simple: one player is given a certain amount of money and has to decide how much of that money she offers to the other player, who

then decides if he accepts the proposed amount, where each player gets its share as divided by the first player, or rejects it, leaving both players with no money at all.

The self-interested model in standard economics suggests that the first player should offer the lowest possible amount to maximize their profits, while the second player will just accept any amount given as otherwise he gets nothing and does not maximize. This is not what happens. Subjects tend to reject offers perceived as unfair, even when it comes with a substantial cost. Robust data across several studies has demonstrated that offers around 20% of the available sum are perceived as unfair and therefore rejected with probabilities between 0,4 and 0,6 while offers that split the money in half for both players are seen more reasonable and are rarely rejected (Camerer & Thaler, 1995; Fehr & Schmidt, 2003; Roth, 1995).

These studies show how many subjects do not care only about their own payoff, but also of what they believe is fair, and so fairness becomes a factor that alters individual utility, so when the impact of unfairness is great enough on the deciding subject, he prefers not getting his share and avoid accepting unfair treatment. And this is key when understanding how the labor market and its members interact with each other, as it changes completely the perspective of how it should be studied: individuals are not perfectly selfish.

Throughout the years, some objections against the previous results of the experiments named above were made, arguing that the monetary incentives used in the experiments were not big enough. These objections have been proven wrong by experiments that put on stake several months wages. These experiments (Cameron, 1999; List & Cherry, 2000; Slonim & Roth, 1998) suggest that responders become slightly more reluctant to reject offers that are seen as unfair, but as the fear of costly rejection by the first player is high, offers are usually around 50% anyway.

The experiments mentioned above give a better understanding on why firms treat their employees fairly. The typical employment relationship consists of incomplete contractual agreements, in a sense that the contracts do not determine many relevant aspects of the workers' job, and repeated interactions. One issue that rises is that with vaguely specified obligations, firms have to motivate their workers to provide more than minimal effort.

In jobs where productivity of an employee is easy to measure using their output levels to see how well they are doing, incentives in the contracts can be used to motivate workers:

if his earnings depend on how hard he works, it is of his own interest to provide more effort to the company. With more difficult to measure and complex jobs, explicit incentives can lead to distorted outcomes, as the employees will allocate their efforts on the parts of their job that are being rewarded.

Researchers have argued that firms can use the long-term nature of employment relationships to force high levels of effort from workers. If they are able to condition future contracts on their current performance, then workers will provide higher efforts as that will keep their high wage in the future (Hart & Holmstrom, 1987; MacLeod & Malcomson, 1993; Shapiro & Stiglitz, 1984).

The main issue with this approach is that as long as all market participants have selfish preferences, it will require infinite repetition: in order to maintain the equilibrium, the relationship between the employee and the employer cannot end, which is impossible for reasons that will be explained below. Firms can have an infinite horizon if we assume that although their owners will eventually change, their interest will still be to maximize the long-term value. However, workers cannot be seen with an infinite horizon, they will always be finite, and therefore when they approach retirement age, the firm loses its power to threaten future wages, and then destroying the incentive of the firm to pay high wages on the period before retirement. This approach can be used for every period backwards.

Everyday experience has proven that repeated interactions do change labor market outcomes: repeated-game incentives are effective because fairness is important for some individuals. It is fairness that drives workers that believe in so to increase the firms' payoff because their salary just raised (Benjamin, 2005).

There will always be a fraction of workers who are selfish and make it difficult to be profitable for firms to offer noncompetitive wages, but there is only a need for few people to have fairness concerns to make those incentives relevant, as the presence of this fair people will give incentives to the selfish workers to work harder (Brown, Falk and Fehr, 2004).

In the repetition game of work in the labor market where an employee stays in the same company for several periods, agents who are selfish will produce minimal effort in the final period, making the company stop paying a rent to a worker who is known to be selfish. Fair-minded agents, however, exert more effort when they are paid a higher rent.

This gives the selfish agents enough incentive to work as hard as the fair agents if they want to receive the higher wages and not be perceived as selfish.

### 3 PSYCHOLOGICAL FACTORS ON LABOR DECISIONS

Young people's work decisions are influenced by psychological factors that significantly influence their decisions, behaviors, and outcomes in the labor market. As they transition from education to work, these psychological factors play a key role in determining the path they choose, the level of engagement and satisfaction they experience, and their overall success in the job market.

Cognitive biases can have a high impact on young people's work decisions. There are several types that will be discussed, but we have to take into account: confirmation bias, the tendency to seek information that confirms existing beliefs, may lead young people to be drawn to careers that fit their existing ideas or stereotypes, rather than considering broader options; availability bias, the tendency to rely on readily available information, can limit young people's exploration of alternative career paths and lead them to prefer more familiar or popular options; anchoring bias, the tendency to rely heavily on initial information, affects young people's salary expectations and negotiation skills.

Risk perception is another psychological factor influencing young people's work decisions. Fear of failure or uncertainty about future outcomes can keep them from taking risks or pursuing unconventional career paths. A tendency to be risk-averse can lead young people to seek safer and stable employment opportunities, even if these opportunities may not match their genuine interests or long-term aspirations. Addressing this risk perception and providing support and guidance can encourage them to explore different career options and take calculated risks that can lead to greater fulfillment and success.

Social influences can make a huge difference when shaping young people's work decisions. Peers, parents, mentors, and social norms all influence their career choices, aspirations, and expectations. Cultural and social factors, such as gender roles or stereotypes, can highly influence youngsters career preferences and may limit their career opportunities.

Understanding the impact of these psychological factors on young people's work decisions is critical. To do so, we will review studies on how job insecurity and loss aversion affect job selection and how big their impact is, followed by an analysis of the most commonly found biases in the hiring processes: which are these biases and how they affect the hiring managers when selecting between applicants; and then comments on how different social influences and environments affect the transition from college to work.

By making the younger generations aware of the biases they may find in the future and encouraging the development of critical thinking skills, interventions can help youngsters overcome the negative impact of the factors mentioned above.

### 3.1 RISK AVERSION AND UNCERTAINTY

Related to what we discussed above in paragraph 2.1 regarding fairness and judgements, workers do not only show decreases of utility based on what they perceive as fair, but also show strong effects of loss aversion when judging fairly. Small decreases in wages do a lot more damage to fairness judgements than a small increase in wages does increase these perceptions (Kahneman, Knetsch, & Thaler, 1986).

When entering the labor market for the first time, wages strongly depend on the labor-market conditions: if the labor market is tight, workers will be able to find a job at another place that offers a high wage, while if unemployment is high, the employers options expand and the offers will be lower, and with no other option the entry-level lower wage has to be accepted.

This is not the case for people that have already worked, as they have reference points of what they were earning before and will be more reluctant to accept lower offers than what they had before in fear of losing a favorable position obtained in the past.

Going back to loss aversion, the fact that workers' fairness judgments are affected a lot more when they are made worse off disincentives firms to cut wages. Evidence (Devereaux, 2001; Devereaux & Hart, 2006; & Haefke, Sonntag, & Van Rens, 2006) supports these assumptions.



Insecurity can also be a determinant factor, and recent literature suggests that lots of empirical and theoretical work needs to be done in order to fully understand its magnitude.

Job insecurity is defined as a subjectively experienced stressor that may divide into different dimensions that can have different consequences on work-related attitudes, job performance, job-induced stress, and mental well-being.

Different works of literature suggest that perceived job insecurity can negatively affect employee attitudes (Davy, Kinicki, & Scheck, 1997; Rosenblatt, Talmud, & Ruvio, 1999; Sverke & Hellgren, 2001) and well-being (De Witte, 1999; Mohr, 2000), as well as for organizational viability (Kets de Vries & Balazs, 1997).

Working life and environment has suffered dramatic changes over the past decades (Howard, 1995; Pfeffer, 1998), and in this context job insecurity has risen as an important construct. Global competition and the need to cut costs to compete, added to periods of economic recessions and unemployment have all contributed to growing overall insecurity. Organizations have two options available to become more profitable: increase their gains or reduce their costs (Cascio, 1998).

During the latest years, organizations have engaged on a process of restructuration and reduction of workforce to enhance effectiveness and competitiveness (Burke & Nelson, 1998; Kozlowski et al., 1994). This reduction of scale, named downsizing or right-sizing (Hitt, Keats, Harback, & Nixon, 1994) has become a standard remedy when organizations attempt to improve the previously mentioned effectiveness and competitiveness. This resizing meant millions of jobs destructed and a change in the nature of work for those whose jobs remained. Employers move towards flexibility in how they staff their organizations (Klein Hesselink & van Vuuren, 1999; Sparrow, 1998). Skills demanded have changed, as well as the terms of the employment contracts, specially regarding the latest short or fixed term contracts (Sverke, Gallagher, & Hellgren, 2000).

How individuals react to the changing characteristics of employment conditions or jobs depend on different factors like labor market and individual characteristics, employability, age, gender... This can be seen in the fact that employees who believe they can find another job easily are positive with these changes, while people who find difficulties on doing so will not see the changes so keen.

Different researchers give similar descriptions to job insecurity: Davy et al. (1997) defined it as an individual's "expectations about continuity in a job situation", Rosenblatt & Ruvio (1996) as the "overall concern about the future existence of the job", Heaney, Israel, & House (1994) as the "perception of a potential threat to continuity in his or her current job", and Greenhalgh & Rosenblatt (1984) argued that it was the "powerlessness to maintain desired continuity in a threatened job situation".

All these definitions have in common that job insecurity is a subjective phenomenon as it is based on an individual's perceptions of the work environment (Hartley et al., 1991). By definition, job insecurity inquires in the concerns due to involuntary changes in continuity and security. Insecurity is easily visible in the context of down-sizing and changes that reduce the number of jobs available (Gowing et al., 1998; Parker, Chmiel, & Wall, 1997); however, Rosenblatt & Ruvio (1996) argued that job insecurity is an important factor in seemingly unthreatened job situations.

Several studies suggest that the pure existence of threats concerning job continuity may have the same negative consequences on individuals as job loss itself (Dekker & Schaufeli, 1995; Latack & Dozier, 1986). Job insecurity has been associated to impaired well-being, physical health complaints, anxiety, and mental distress (Barling & Kelloway, 1996; Hartley et al., 1991; Isaksson, Hellgren, & Petterson, 1998), as well as to lower levels of job satisfaction (Ashford et al., 1989).

The negative consequences of job insecurity can be prevented by providing accurate information, if there is clear communication between the agents, by supplying training opportunities to unemployed individuals that can acquire new skills, and training employees to cope with stress created by job insecurity (Hartley et al., 1991; Heaney et al., 1994; Kets de Vries & Balazs, 1997).

### 3.2 COGNITIVE BIASES

Schmitt & Kim (2007) argue that some of the most critical decisions that an enterprise takes usually involve the selection and hiring process. This complex process requires special decision-making skills and thoughtful appraisal (Ahmad & Schroeder, 2002). The failure to identify the best candidate for the company can lead to high opportunity costs and dissatisfaction (Hunt, 2007). Even though this process has been mentioned to be

key for organizations, several studies have observed that Human Resource employees are susceptible to cognitive biases when assessing potential candidates (Stevens, 2015), and that is why up next, we will analyze the four most common biases that job seekers face in the recruitment process.

During the recruitment process, the interviewer has to form an opinion about a candidate based solely on their resumes, references, and first impressions, leaving room to biases to appear. Sometimes hiring managers have to make quick decisions and unconscious biases happen. Cognitive Heuristics are the mental shortcuts that our brain uses to ease the cognitive load of making a decision, and the following four are the major biases in the recruitment process.

The Halo effect is the most common bias that appears in the hiring process. In this bias a single positive trait or characteristic influences the judgment of unrelated factors that have to be taken into account. For example, if an individual is attractive, assumptions that the candidate will be intelligent and kind are often made. This single obvious trait serves as a “halo” that creates false assumptions about abilities and personality. It can also happen in candidates that graduated from a prestigious university and assumptions that the candidate will fit great and will have knowledge and skills above the rest are made, missing potential candidates that may be a better match for the company.

The Horn effect is the opposite of the Halo effect, where a negative trait of the candidate forms a negative judgment for the hiring manager and the interviewee is from that point onwards in an unfavorable position. The Horn effect has such effect that only one negative characteristic, comment, or action, are given strong emphasis, putting the candidate in a risky position to overcome.

Confirmation bias is related to the process of information by trying to find information that is similar to one’s existing beliefs. This bias is unintentional and often results in ignoring inconsistent information. It can happen when the interviewer has an initial perception about the candidate and from that point he looks for information that will support that perception formed. This can lead to missing relevant information and the overlooking of red flags that contradict that belief. Confirmation bias can happen through referrals and opinions as well, as if one of the colleagues of the hiring manager refers someone, confirmation bias will most likely happen in the interview, looking for all the possibilities to hire that person and leaving other potential candidates out.

The Affect Heuristic bias uses mental shortcuts to make decisions heavily influenced by their current emotions. The quick emotional responses that occur during the hiring process can determine things about how risks and benefits are assessed by the candidate. It can also be the case that if the interviewer and the candidate went to the same school or college, or are from the same city or neighborhood, the emotional responses will probably be quick and positive. The interviewer will quickly decide if they like or not a candidate and will spend the rest of the interview trying to reaffirm those feelings.

Although this four are the most common biases found in the recruitment process, it should be mentioned that gender, affinity, anchoring, and contrast bias may also appear and influence the final decisions.

The decision whether to hire someone or not should depend mostly on their ability to do the job well, not on judgments based on the outside factors. If those factors that are represented through biases are considered and their influences are eliminated, most of the issues in the hiring process will be solved. Gifford (2014) gives a similar view: better understanding of cognitive biases and associated potential pitfalls would improve hiring decisions.

### 3.3 SOCIAL INFLUENCES

The transition from college to career is a critical phase of every individual's life, marked by changes and challenges. This transition has drastically changed over the last 30 years. Postponement of major decisions related to work and responsibility has become normal among the population (Arnett, 2000).

The increase in opportunities and decrease in responsibilities allows some emerging adults to view multitude of options as exciting. Others, however, are overcome by the situation, leaving them in distress and in some cases even depression as they have to explore to find their new identity (Kenny & Sirin, 2006; Mortimer, Zimmer-Gembeck, Holmes, & Shanahan, 2002).

Emerging adulthood transition has been demonstrated to be facilitated through social support, while the lack of it has shown a decrease in well-being and self-esteem, causing relevant distress (Galambos et al., 2006; Mortimer et al., 2002; Polach, 2004).

To further understand this factor, we will be analyzing the social factor in a qualitative study made by Kerri A. Murphy et al. in 2010. The methodology was based on Hill, Thompson, & Williams's (1997) consensual qualitative research (CQR), as it had previously given promising results in similar studies. This method aims to unveil multiple truths of individuals while trying to find common themes to generalize for the whole population.

It consisted of 10 individuals who had graduated from college with bachelor's degrees 3 or fewer years before and who were working in urban cities. The participants were employed full-time and interviews were conducted after the participants arrived home from work. The interview protocol was based on Phillips, Bluestein, Jobin-Davis, & White's (2002).

The role of social support as a facilitating factor on the transition was a common theme for all participants, as well as the lack of it as a barrier to a smooth transition. It related to their sense of well-being, the transition experience, and how expectations were met or not.

One participant described her experience as difficult as she had been homesick since college and moving far to start a new job was stressful. Half of the interviewees emphasized the role of their mothers when developing work ethics and feeling supported when making decisions related to college and work. The unconditional support from their families gave the participants a sense of freedom in their career exploration.

Some participants also stated that the social climate of their job affected the difficulty of their transition, as they were working with people that could perfectly be their parents in terms of age, making it a tough transition.

Others described the importance of the people in their workplace as they influenced their daily quality of life, while some said that their transition was easy, with the only difficulty being the social support network left behind and having to bond with new people.

The study also investigated the expectations, the optimism regarding the future, the evolution of work values, and the adjustment to the first job.

From these factors, one of the most consistent findings was that life satisfaction could be greatly influenced by social support. The role of relational support in aiding emerging adults in their transition from college to career has been named in much of the current literature regarding emerging adults' development (Arnett, 2004). Family and friends are a key added strength to the notion that social support is crucial when transitioning, generating expectations about a first job, and the ultimate well-being (Kenny, Blustein, Chaves, Grossman, & Gallagher, 2003).

#### 4 BARRIERS FACED WHEN ENTERING THE LABOR MARKET

Entering the labor market can be a difficult process for young adults as they tend to encounter several barriers that impede a smooth transition into the workforce. Several studies such as (Sum et. al., 2013) have noted that the challenges faced by young adults can also be related to structural changes in recent times, affecting to both supply and demand sides. Two of the most prominent barriers faced are the obvious lack of experience, as they are just entering the labor market, and discrimination bias. Both can significantly impact their opportunities.

The lack of previous experience can be the most difficult of both to overcome, as young adults compete against other youngsters with no experience, but also against older workers who have previous experiences and professional achievements. Some studies suggest that educational institutions have not kept pace with the shifts in the structure of the labor market mentioned before, failing to provide current youth with the relevant skills required to obtain jobs (Annie E. Casey Foundation, 2012; Sydmonds, Schwartz, & Ferguson, 2011). Employers usually prioritize candidates with substantial work experience, as it is perceived as a signal of reliability and competence. This creates a catch-22 situation for young adults (this is, a situation where one is trapped by two contradictory conditions) as they need experience to get jobs but cannot get the jobs that would give them the experience. Without initial opportunities to enter the workforce, youngsters face difficulties to establish themselves and prove their capabilities.

Discrimination bias should be considered important as well. Young adults can experience discrimination towards them in several ways like age-related stereotypes, biases, and preconceived notions about their capabilities and commitment. This can lead employers to have misguided beliefs about lack of professionalism, discipline, or a strong work ethic. Such biases can lead to their rejection and dismissal of their qualifications and potential contributions. Discrimination based on age can limit their access to job opportunities, reduce their chances of securing a job position, and restrict their career development possibilities.

However, age-based discrimination is not the only one that they can face. Other biases such as gender, race, or socioeconomic background do exist, amplifying the barriers that young adults face. Some groups may face compounded biases and systemic obstacles that further difficult their entry into the labor market.

Understanding the barriers faced by youngsters is crucial in creating a more inclusive and equitable labor market. Policies and initiatives that promote internships and other experiential learning opportunities can help young adults learn practical skills and close the experience gap.

#### 4.1 LACK OF EXPERIENCE

Workers with experience are in high demand in the labor market (Salvisberg, 2010) due to their high productivity (Arrow, 1962) and lower training costs (Thurow, 1975). This demand for experience workers is the main reason why institutions of higher education such as universities have begun providing work experience in their curricula, including mandatory internships or formation programs (Cranmer, 2006; Heyler & Lee, 2014; Billett, 2014; Silva et al., 2018).

The lack of experience is one of the main problems related to the delay in the age at which young adults are able to insert into the labor market. This factor is one of the most important factors, if not the most important, that difficult the career-to-work transition and that also affects the disarrangement between the skills and competences that companies look for and the skills acquired by those who are still in formation.

A program that is used in the European Union is the “Youth Guarantee initiative”, that aims to enhance the enterprises participation in formation, pursuing the connection

between youngsters and companies so that these participate in formation and apprenticeship programs to give young adults an easier transition to the labor market.

Gomez et al. (2017) argued that even though apprenticeships and formation programs are beneficial, the approach in the education system is incorrect, as they are seen as merely an obligation in the academic record without further understanding and analyzing the real content of the job they do. They also argue that often, enterprises do not take advantage of the contact with the youngster to offer them content related to the work that will be useful as an enriching experience.

McKinsey (2013) expresses in his report "Education to employment: Getting Europe's Youth to Work" that one of the main problems is that most of the small and medium enterprises (SMEs) are not willing to assign resources to the formation of young adults, they prefer just getting employees that already have experience. This is a major obstacle for dual formation of the youth. Several studies by McKinsey (2013) about the career-to-work transition there is an existing lack of communication between enterprises and study centers related to what skills and competences that are required to get a job.

#### 4.2 DISCRIMINATION AND BIASES BASED ON RACE AND GENDER

Discriminations motivated by gender or race can become relevant points to analyze as depending on the candidate, these can greatly influence their opportunities.

Potentially discriminatory policies of employers contribute to gender gaps in employment for many reasons: equal pay for equal work, hiring, promotions, and fixed wage payment patterns for different types of jobs. Of these, hiring employees is probably the most important. In a huge internal labor market, getting a good job with a good company can have a major impact on later career development and employment outcomes.

Hiring is also where discriminatory behaviors have the larger latitude, as there is little information available at the time of hire, giving space for prejudices and stereotypes (Olson, 1997; Lazear, 1991; & Epstein, 1992). However, hiring is the least understood of these processes, being its main obstacle the lack of data.



Hiring has three different processes: first is how recruitment is done, by newspaper, agencies or social networks (Bloch, 1994; Granovetter, 1995); second, the process that leads towards who gets hired and who gets turned away: selection for interviews, how these are conducted and who is offered a position (Bloch, 1994); and last, the conditions offered to the employee, including from pay and perks, to responsibilities.

Discrimination in the recruitment process can be difficult to document, and that is why it gives excellent opportunities for discrimination. The documentation is usually ambiguous, and a complaint is often lacking (Petersen & Saporta, 2004).

Social-psychological theorizing has stressed that with limited information, gender schemas and stereotypes are more likely to appear (Fiske et al., 1991; Nelson et al., 1996; Reskin, 2000). This discrimination may even occur when there is no intent of doing so, solely due to the lack of information available.

To understand how these biases may affect employment due to gender, we will be analyzing a study based on data from the largest Norwegian bank that employs about 7400 people, that investigates the outcomes of the hiring process in terms of job offers. An employee of the bank on the hiring department was used, reviewing files and sitting on interviews, participating in final decisions and organizing papers. In 2 years, data was collected from 866 applicants for 15 different positions with 30 offers, resulting in 28 hires.

The study resulted on two facts: the awareness of nonconscious bias towards women by the hiring agents, usually believed to be a disadvantage for females, and the apparent lack of disadvantage for women, even a slight advantage when getting offers. Speculation is the only thing available for this contradiction.

It is possible that the hiring agents in the organization fell victims to cognitive biases in quantitative reasoning; biases in understanding statistics and probability are common (Johnson, Hershey, Meszaro, & Kunreuther, 2000). They may be also just repeating social views and interpretations about gender inequality without considering the specifics of each situation. It could also be that hiring agents have internalized the results from previous social-psychological theorizing. However, the reason that seems to hold more strength is that it is a generational issue (Petersen & Meyersson, 1999). The hiring agents grew within a context of gender equality issues, and they may hold those formed

views that were correct when they were younger and, being now in positions of power, try to compensate for those perceived disadvantages.

Studies on social network discrimination based on race have also been of great interest for researchers. Social networks as a concept have taken a central theoretical role on literature about race and labor markets. Wilson (1987, 1996) believed that social isolation from the world of work is a key reason that explains the underperformance of certain races on the labor market.

Social isolation has various aspects (Fernandez & Harris, 1992), but the central point that has been widely investigated is the extent to which minorities are cut off from job-finding networks (Johnson, Farrell, & Stoloff, 2000; Royster, 2003).

Studies, however, produce mixed results, as minorities are not excluded from job-finding networks, but even tend to obtain their jobs through networks more than non-minorities (Elliott, 2000; Green, Tigges, & Browne, 1995). The problem arises when it is discovered that the jobs obtained via their networks pay less than jobs obtained other ways (Elliott & Sims, 2001).

There is no exclusion from white networks (Royster, 2003); the literature emphasis now focuses the over-reliance on ethnic networks, and therefore the study of minorities being stuck in the “wrong networks” that lead to lower-wages jobs.

A study conducted by Fernandez & Fernandez-Mateo (2007) used data on employees working at a company and the networks of job contacts to applicants for entry-level positions that were reachable for candidates with modest education and skills. On the company, more than 50% of the employees were from various minorities. Working with the human resources department of the company, they assembled data on the pool of applicants, interviewees, job offers, and hires for 2605 applications over 39 months that resulted on 192 hires.

The study did in fact find evidence of network processes during various stages of the recruitment process, but they did not find evidence to support that those network factors served to cut off minorities. We have to take into account that these results cannot be generalized, as on a different not-so-diverse setting, the empirical results could vary.

## 5 HOW INCENTIVES AND REWARDS INFLUENCE DECISIONS

When choosing a job, rewards and incentives should not be underestimated, as both, monetary and non-monetary, have significant impacts on the decisions made regarding our employment. These incentives have the power to shape our motivations and job satisfaction.

Monetary incentives, like competitive salaries, bonuses, and benefits packages are the most recognizable rewards. These provide tangible and measurable advantages, which include financial stability, higher standards of living, and the ability to fulfill personal financial goals. A generous paycheck or potential financial growth can be a determining factor when accepting a job offer or following a particular career path.

While money is undeniably important, non-monetary incentives hold great importance over the decision-making process. This kind of incentives provide a sense of fulfillment beyond material rewards, such as being able to spend more time with family and friends or into personal interests due to flexibility in working hours. Autonomy and freedom when managing one's own schedule can greatly influence decisions when accepting an offer or not. Career advancement, the opportunity for professional growth and skill development while taking on new challenges can be highly motivating as well. Organizations that offer progression, mentorship and training are often more attractive, especially for young adults who are willing to gain experience on different fields and that look to develop their skills and be more capable. The sense of accomplishment and personal development that comes with advancing on one's career can be more important than immediate financial gains. Additionally, good work environments and supportive company culture are also relevant. People seek workplaces that promote collaboration, respect, and a sense of belonging, as recognition and appreciation for your contributions to the company can create a sense of satisfaction and loyalty. Supportive work environments enhance employee motivation and job satisfaction, gaining crucial weight when comparing job options.

Incentives and rewards, both monetary and non-monetary, are key factors that shape decisions when taking job offers. Financial incentives provide stability and tangible benefits, whereas non-monetary incentives affect our desires for personal satisfaction, work-life balance, career growth, and positive work environments. Taking these factors

into account when offering jobs as a company or choosing between offers as a worker can become crucial.

## 5.1 MONETARY INCENTIVES AND THEIR INFLUENCE

Motivated and productive employees are crucial for company success whatever the size, industry, or strategy. To motivate employees, one of the most common approaches is performance-based incentive pay, and it usually takes one of two forms: bonuses that depend on their individual performance, or bonuses that depend in the whole organization performance (profit-related). These incentives do sometimes work in the ways they are intended to, but they can also backfire, causing contentious behaviors, complaints, or overwork and stress. There is little progress on gathering evidence on how different schemes of payment affect differently the employee's well-being.

A study conducted by Chidiebere Ogbonnaya, Keevin Daniels, & Karina Nielsen in 2017 aimed at examining the extent to which this different payment schemes were associated with employee well-being, job satisfaction, commitment, and trust. It used data from interviews conducted in 1293 private-sector workplaces in the UK. The interviewees were senior managers responsible for employment relations, personnel management, or financial management, covering issues related to workplace characteristics, payment systems, workplace performance, and recruitment and training. They also gathered data through questionnaires to 13.657 employees on working hours, intensity, working arrangements, and well-being.

The analysis of the data showed that performance-related pay had a positive association with job satisfaction, trust, and commitment, while profit-related payments did not have those positive effects and, in fact, in some cases it resulted in employees being less committed and trustful with management. This study suggests that only performance-related pay is positively associated with the perception that work is more intense, but the rewards for working intensively influenced job satisfaction, trust, and commitment.

Another study conducted by Hsingkuang Chi, Hueryren Yeh, & Tingwei Guo in 2018 aimed at understanding the relationship between salary, job interest, and corporate image in the willingness to apply for a job. We will first explain the factors and then discuss the results.

Salary is referred as an exchange relationship between an employee and an enterprise, where the employee gives their knowledge and labor in exchange of money or benefits, the salary (Ouchi, 1980). The salary as a concept can include wages, overtime pay, bonuses, benefits, and allowances (Wang, 1997). Huang (1989) suggests that salary can be divided in basic salary, subsidies, and bonuses. Salary is one of the main factors when job seekers make choices (Cable & Judge, 1994) as the main purpose of working is to earn a salary to fulfill personal needs (Kissan & Manohar, 1998). Herzberg (1968) argued in his motivation-hygiene theory that motivational factors promote employee work performance while hygiene factors maintain that performance. Chen & Chen's (2011) study of the two-factor theory suggests that both factors, hygiene and motivation, influence positively work intention and, together with a good salary, they help acclimatize new people in the workplace while promoting motivation and devotion.

Corporate image are the values and code of conduct of an enterprise. It derives from the impression and cognition perceived from individuals from inside and outside the enterprise. Several studies have discussed the enterprise's status on influence to applicants (Ehrhart & Ziegert, 2005; Highhouse et al., 2003), and these suggest that enterprises with good public image will have more applicants willing to work for them.

Job interest can create dilemma between young adults that enter the labor market as they have to decide between putting job satisfaction, salary, or pursue of experience when choosing jobs to apply. Some individuals only consider good salaries and reputation of companies and end up in jobs where they are unsatisfied or bored. Chiang (2015) suggested that interests serve as a reference point for the transition from student to working professional.

A company's capacity of acquiring great talent depends on the job seekers' willingness to apply for a work in them. This willingness describes the seekers' desire to work with them (Ehrhart & Ziegert, 2006) and is a key factor to company competitiveness. As Tsai et al. (2008) suggested, if an enterprise can attract job seekers to apply and commit to the application process, then the enterprise will increase their competitiveness.

The study designed by Hsingkuang Chi, Hueryren Yeh, & Tingwei Guo in 2018 analyzed data obtained through questionnaires distributed in employments expos and career guidance centers in Taiwan. 300 questionnaires were collected, from which 285 were valid. Then, applying a hierarchical regression to test effects they found that the three factors have significant positive effects on willingness to apply. The order of relevance

of the factors was job interest, followed by salary, and then corporate image. Although both job interest and salary exerted moderating effects on willingness to apply, job interest had a stronger influence.

## 5.2 NON-MONETARY INCENTIVES AND JOB SATISFACTION

Non-monetary incentives are used by organizations to motivate employees towards job performance. Rose (1998) described non-monetary rewards as “a non-cash award given in recognition of a high level of accomplishments or performance such as customer care or support to colleagues, which is not dependent on achievement of a pre-determined target”. Non-monetary incentives are believed to be cost-effective ways to compensate employees, attracting, motivating, and retaining employees.

The literature on human resource management and organizational behavior suggests that non-monetary incentives are effective in motivating employees, as the essence of incentives is to establish a link between desired behavior and outcomes that make the employee feel appreciated (Whetten & Cameron, 2007). The perceived climate in the workplace is heavily influenced by the non-monetary reward system (Khan et al., 2013). Organizations that take into account the benefits of non-monetary incentives such as increasing holidays and family benefits are usually perceived as supporting and caring. Recognition is one of the most powerful and common tools that is used in organizations to drive employee engagement (Sun, 2013), but some conditions need to be met for it to be effective: it should be frequent, specific, and timely, this is every week or so, with an identification of what the recognition is made about, and taking place shortly after the event that leads to the recognition occurs.

Job satisfaction is defined by Locke (1976) as “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences”. It entails how employees feel about the job they engage and its different aspects, while also explaining the extent to which people like or dislike the job they do (Spector, 1997). Propensity to look for another job and leave the company decreases as job satisfaction increases, as the higher this is, the more positive the employee attitude towards the job and commitment to the company are (Sarwar & Abugre, 2013).

Incentives such as effort optimization, employee autonomy, and empowerment should be readily available to increase employee job satisfaction in the organization (Eriksson & Villeval, 2008; Falk & Kosfeld, 2006). Maslow (1998) argued that “many people are influenced more by non-monetary than monetary considerations” and that many people, to not leave their job should be provided with “higher needs and meta-need satisfactions”. Airoldi (2006) reported that around 70% of employers use non-monetary rewards in their organizations.

Hayati & Caniago (2012) and Rast & Tourani (2012) conducted studies which found that supervision, relationships, nature of job, pay, and promotion opportunities related to job satisfaction. It was also found by Tymon et al. (2010) that intrinsic rewards and job satisfaction were positively correlated. Tausif (2012) studied the relationship between non-monetary rewards and job satisfaction among teachers in public schools and found that non-financial rewards were the most powerful predictors of job satisfaction.

## 6 EDUCATION AND FORMATION

In the dynamic and rapidly evolving labor market that is found currently, the importance of education and formation programs cannot be overstated. As young adults start the journey of professional success, formal education and specialized training play a key role in giving them the skills and competences needed to thrive in the field they choose.

A strong foundation of information and comprehension in a specific subject area is provided through formal education. Institutions of higher learning provide an organized curriculum that includes both theoretical ideas and real-world applications, whether students are pursuing a degree or taking part in vocational training. Individuals with this educational background not only become experts in their profession but also have a thorough awareness of market trends, best practices, and cutting-edge technology.

Education programs also promote the growth of crucial talents that companies strongly appreciate. Along with critical thinking, problem-solving, communication, teamwork, and flexibility, these abilities go beyond academic knowledge. Students improve their capacity to assess circumstances, collaborate with others, and think creatively via projects, group assignments, and practical simulations—skills that are highly transferrable and in demand on the job market.

Opportunities for networking are quite valuable. Institutions of higher learning operate as lively communities where people may engage with other like-minded students, smart teachers, and business executives. These contacts may result in collaboration on projects, internships, employment leads, and mentoring. During one's educational journey, developing a strong network opens doors to future career prospects and provides a support structure for professional development.

Programs for professional formation and ongoing professional development efforts meet the demands of those who want to maintain their level of competitiveness in their areas. These programs provide courses, certificates, and specialized training to develop existing talents or pick up brand-new ones. Participating in such programs demonstrates a person's dedication to learning and flexibility, two qualities that are crucial in today's workplace due to its constant change. Continuous improvement increases employability while also fostering a sense of accomplishment and fulfillment on the individual level.

## 6.1 THE IMPORTANCE OF FORMAL EDUCATION

Some literature suggests that schooling is one of the main means by which individuals acquire mental skills and capacities needed in the future in stressful situations to perform according to their position needs (Porter, 1985; Bell, 1973; Clark, 1962).

Other versions like Thurow (1972) believe that formal education signals the abilities of an individual to learn on the job and therefore how much will it cost to train them.

Both approaches assume that it is important that employers match the more highly trained or easily trainable individuals with the more demanding jobs. Educational credentials act as a key point for employers when determining the suitability of potential employees for jobs that require different levels of autonomy, self-direction, or responsibility.

However, recent investigation found that having a higher level of education does not necessarily mean a smooth transition into the labor market. A study conducted in Korea showed that the percentage of graduates that have to search for a job increased from 2006 to 2015: graduates from high-reputation universities were increasingly unable to



secure optimal jobs. The reputation of the university however seemed to make a difference when finding suitable positions.

There is a weak connection between formal educational credentials and skill requirements when analyzing from a strict perspective, as skill requirements usually vary little among jobs. Also, there is a strong connection between the access to jobs with different levels of responsibility and the level of schooling.

A study by Alfred Hunter in 1998 used data that contained information on 43 different items such as interests, educational development, and vocational preparation in more than 6500 occupations was conducted to further understand how formal education serves as a criterion when determining job occupation. The results found that schooling prepared people for high-skill occupations that required great autonomy and verbal activity. It also found that the importance of schooling for entering occupations at different levels of skill and independence has not decreased over time. First jobs are greatly influenced by the skills acquired with formal education, and contrary to Braverman (1974), its importance when assigning jobs at different levels of skill is greater than ever.

A paper written by Jutta Allmendinger in 1989 analyzed the educational systems and how the differences affected occupational rewards. It showed that for individuals raised in a stratified system, their occupational status was strongly determined by their formal education, while it was less significant for individuals in unstratified systems. It also showed that people educated in standardized systems tend to change jobs less frequently than the ones educated in unstandardized systems.

## 6.2 FORMATION AND PRACTICE PROGRAMS

A key point for entering the labor market as a young adult are the formation contracts and apprenticeships, and so this should be analyzed. We can use the Youth Report nº36 from 2023 elaborated by the Spanish government, that uses data provided by the Public Service of State Employment (SEPE, for its initials in Spanish) to see the level of implementation of these programs.

The formation and apprenticeship contracts constitute one of the specific ways of access to the labor market for young adults and they aim to favor the learning in a work

environment and the acquisition of transversal professional competences during the formation, as well as improving the employability of the youth.

This type of contracts became popular from 2012 to 2015 in Spain, getting to levels of 161,667 contracts. However, in 2016 this model of employment registered a steep decrease due to a new regulation that required formation to be certifiable: The fact that the levels descended so much until just 37,781 contracts in 2016 reflected the malpractice that was done before the regulations came in. Since then, this model of employment has kept low levels, and in 2022 there were just 27,254 formation contracts.

There is no gender discrimination in formation and apprenticeship: since 2013 women absorbed more than 50% of these contracts, and now due to the sanitary crisis they achieve the 46,4% of apprenticeships.

Some recent policy measures promoted by the European Union consider the problem of the insertion of youth into the labor market. Such policies aim to boost demand and job creation, improve transitions to work, and expand quality apprenticeship and internship programs. In several countries, these measures are just a part of the EU Youth Guarantee initiative and are based on the principle that all young people up to 25 years of age should receive a good quality offer of employment, education, or an apprenticeship within four months of leaving formal education.

In Australia, for example, the Community Youth Hubs program aims to create appropriate pathways to employment and training for young people, expanding job and training opportunities. Canada is another example, where the Youth Employment Strategy aims to help achieve a better match between the skills acquired by young adults and those needed by the labor markets (OECD, 2014).

Well-designed apprenticeships can promote skill acquisition, facilitate the transition from career to work, improve the employment opportunities, and reduce school drop-out rates.

## 7 CONCLUSIONS

This work has reviewed the importance of factors related to behavioral economics regarding the labor sphere. We have seen how individuals need to perceive fairness to feel comfortable, acquire greater job satisfaction, and work above minimal effort; we have also discussed the different biases that can rise during the hiring process and the risks that these biases may entail in the selection process; how the social environment and family support can drastically change the transition into the labor market for young adults; the inconvenience of inexperience and measures to help prevent it; the different reward systems that can be used to incentivize hard work and job satisfaction and which ones can be more effective when fostering effort and job satisfaction; and the importance of formal education and apprenticeships before entering the labor market, especially for young adults.

If something is to be understood from what we have seen, is that the transition from college to the labor market is a difficult path, and it can be made more difficult by biases; but with the right awareness, influences, and support, it can become a smooth and pleasant path filled with new challenges and personal success.

Enterprises need to be aware of the biases that arise during the hiring process, job applicants have to make clear decisions about their preferences before joining the adventure of finding a job, and governments should apply policies that encourage a strong learning relationship between education and companies.

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