

# Postcode selection? Employers' use of area- and address-based information shortcuts in recruitment decisions

By Dr Alex Nunn, Dr Tim Bickerstaffe, Terence Hogarth, Derek Bosworth, Anne E. Green and David Owen

## Introduction

Between the mid-1990s and the onset of the current economic crisis in 2007/08 the UK labour market had been characterised by generally high levels of employment. Despite this it was widely noted that some notable problems remained. In particular, there was a paradox that strong labour demand appeared to coexist with high levels of 'worklessness', especially concentrated in deprived areas and neighbourhoods.

The causes of worklessness have been widely researched. One possible cause of spatially concentrated unemployment and worklessness highlighted by the literature is related to the practice of area-based discrimination on the part of employers; what might be termed 'postcode selection'. While this is often asserted it is very much less frequently substantiated. As such, the Department for Work and Pensions (DWP) appointed the Policy Research Institute at Leeds Metropolitan University and the Institute for Employment Research at Warwick University to investigate the gap in the evidence base with a view to addressing two interlinked hypotheses:

- (1) that postcode discrimination exists and is part of the explanation for unemployment and worklessness in deprived areas; and
- (2) that this might be tackled through the use of employer information networks to combat inaccurate stereotypical perceptions.

This report presents the findings from this research.

## Methods

The project involved three components:

- **Literature review** covering the existing literature on 'postcode selection' and the underlying theoretical explanations for this, as well as the gaps in the evidence base.
- **Qualitative fieldwork** – semi-structured interviews were undertaken in six local authority areas, with around 20 employers in each area as well as five interviews with employment agencies and five interviews with Jobcentre Plus representatives.
- **Quantitative analysis** – detailed econometric analysis of the Labour Force Survey and National Benefits Database data was undertaken to identify personal and neighbourhood indices of deprivation and the relationships between these and employment, unemployment and inactivity.

## Summary of qualitative findings

The qualitative fieldwork evidence suggested that in certain conditions employers do use information shortcuts to screen applicants. First, in labour market conditions where employers receive large numbers of applicants they may use these methods to make the task of short listing and selection more manageable. Second, screening of this sort is less likely to occur where recruitment and selection is in some way professionalised, for example, by the involvement of Human Resources (HR) professionals in some or all of the process.

An additional consideration for post-code/address-based selection/screening to occur revolved around the individual managing recruitment having sufficient local knowledge to be able to recognise particular residential areas and understand their relative reputations. In these specific conditions, the fieldwork found that there was some evidence of a marginal degree of willingness among employers to screen on the basis of address, or at least a recognition of the reputational problems of certain areas, even if they then suggested that they would not use this knowledge in making recruitment decisions.

## Summary of quantitative findings

The quantitative analysis suggests that there is evidence to support the overall 'area effects' thesis that individuals living in deprived areas may face disadvantages in the labour market additional to their own personal characteristics and which result from the nature of the neighbourhood in which they live. Such factors might include 'postcode selection'.

However, this is complex and the complexity may offer some support to the research hypothesis. The quantitative findings suggest that those with relatively less disadvantaging personal characteristics do face additional disadvantage resulting from the comparative deprivation of the area in which they live. Counter-intuitively, those with relatively more deprived characteristics but who want to work may actually gain some marginal employment/earnings advantage from being in a relatively more deprived area. Though it is only one possible potential explanation of these slightly contrasting findings it may be that the former group (facing less personal disadvantage) tend to compete in wider geographical labour markets and therefore suffer from their residential characteristics relative to competitors in the labour market living in other (less deprived) areas. The second (more personally deprived) group may surprisingly do marginally better

in the more deprived area precisely because they are competing in local labour markets where most of their competitors share similar residential characteristics. Again, these are only potential interpretations of interesting data and other potential interpretations may also fit the same data.

## Discussion and interpretation

The evidence presented in this report is useful and provides perhaps the most insight to date into the dynamics of 'postcode selection'. The qualitative evidence suggests that these factors do play a role but that this is on a relatively modest basis and is secondary to a range of additional contributory factors. However, there may be reasons to think that this interpretation of the qualitative evidence slightly understates the contribution of area/address based considerations. This is because employers and especially recruitment agencies may have been relatively unwilling to admit to various prejudices and, therefore, may have overstated their adherence to the merit-based approach.

The quantitative analysis is not yet able to offer any more conclusive evidence of the existence or relative contribution of 'postcode selection'/address-based discrimination to the range of other personal and neighbourhood effects that contribute to area-based concentrations of worklessness and negative labour market outcomes. At the most, however, the empirical observations offered in the quantitative analysis are consistent with the hypothesis that address-based discrimination is one potential area-effect which acts on top of other personal characteristics in shaping labour market outcomes. However, like the qualitative analysis, the quantitative evidence suggests that if this does exist it is at the margins and in very specific conditions: where individuals have the personal characteristics to compete in labour markets against individuals with similar personal characteristics but living in less deprived neighbourhoods.

Area effects are notoriously difficult to isolate from the wider range of disadvantages that individuals and groups face in the labour market. However, taken together, the qualitative and quantitative evidence suggest that the research hypothesis regarding address-based discrimination among employers in their recruitment decisions can be supported as one potential 'area effect'. This is not a conclusive finding but it does move the debate on postcode selection forward as one possible area effect from a simple assertion to one that has some empirical support, until such time as future research can either confirm it or contradict the findings and interpretation offered here.

The second part of the hypothesis being tested in the research related to the prospect of using employer networks to 'seed' information in support of changing employer behaviour in relation to the employment of people from deprived areas. There is an established evidence base on employers' use of employer networks to share information and tackle common business problems. These networks tend to work where employers build up trust and overcome barriers related to competition and view participation in them as delivering tangible benefits. However, the evidence collected in the qualitative fieldwork suggests that there is only limited scope to change employer behaviour in this regard. Employers were mistrustful of government provided information and reported limited evidence of changing behaviour as a product of this sort of information. They also suggested only a limited awareness of prominent recent government sponsored information campaigns. Together this suggests that where employer peer networks take up the information campaign, employers may take this information seriously. This applies equally to employment and recruitment agencies and HR departments and external consultants who appeared to be trusted by employers but tend only to provide information and advice related to statutory requirements or business strategy.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 782 2. Research Report 664. July 2010).

You can download the full report free from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

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