

90-day trial periods appear successful

The Government has recently announced that it will be extending the policy regarding 90-day trial periods for new workers to all employers, not just those with fewer than 20 employees. NZIER's preliminary analysis suggests that this extension is likely have a positive impact on employment. In its first 6 months in 2009, the trial period policy appears to have improved labour market flexibility, increased hiring activity and lifted total job numbers.

The trial period policy is based on sound ideas...

The amendment to the Employment Relations Act 2000 providing for a trial period, which came into force in March 2009, allows small- and medium-sized enterprises (SMEs) to trial new employees with less risk. By reducing the difficulties of firing non-performers, the policy encourages employers to take a chance with new employees. The Government will extend the provision in the Employment Relations Act 2000 to all firms in 2011.

Until the new policy in 2009, all employees were covered by the same rules governing dismissal from the day they started work. Employers were required to tell employees the reason for a dismissal. They also needed to follow a process of working with employees to correct deficiencies, and give non-performing employees a chance to explain their side of the story and to improve. Now, employees with trial periods in their employment contracts cannot bring a personal grievance case against employers for unjustified dismissal. The trial period policy effectively relaxes requirements regarding dismissal of employees for the first 90 days of employment.

The idea behind the trial period is simple: if it is easier to dismiss employees who don't work out, employers are more likely to give people a chance. Employers don't really know how good employees are until they actually start working. If someone doesn't cut the mustard, the process of dismissing them takes time and energy and money. Employers know about the risk of non-performance and cost of dismissal when they consider hiring staff. The risk and cost reduce the likelihood that employers will hire new people. By reducing the cost of dismissal, the trial period should increase hiring.

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Not everyone agrees with the policy. The Public Service Association, for example, argues that a trial period makes employees less willing to change jobs. Taking a new job would mean giving up the rights they have regarding dismissal in their existing jobs. Another argument against the policy is that bad employers could misuse it, for example, by hiring a series of short-term employees or dismissing and re-hiring the same person. Provisions in the policy, such as allowing only one trial period between an employer and employee, and the Employment Court seem to be guarding against such abuses.

...and now data are available to test its impact

If the trial period is having an impact, it should be evident in the labour market statistics. There should be more accessions or hiring of workers. We would also expect to see more separations or dismissals, as some new employees don't work out. The net impact is uncertain, but the point of changing the policy was to increase employment by creating a more flexible job market.

Data are now available to analyse these impacts in the policy's first several months in operation.¹ NZIER has conducted an initial analysis of the publicly available data from Statistics New Zealand's Linked Employer-Employee Database (LEED), including April 2009 to September 2009. Our analysis assessed year-over-year changes in total jobs, accessions (hirings), and separations (firings) from 2005 to 2009 for six size categories of employers in 17 industries. The analysis controlled for seasonal variation in employment by identifying second and third quarter figures separately. Simple regression models² were estimated for the three employment variables. The models also included a variable indicating whether the trial period was in effect for the time period and firm size. The regressions used are a simple analytical technique; more complex models may be able to estimate the policy's impact more precisely.

The evidence suggests the policy has been successful so far

The analysis suggests that the policy has had a small but positive impact on the job numbers for SME employers, during a time when the labour market overall was shedding workers due to the recession. The chart on page 3 shows the overall impact for 2009 Q3: hirings by employers with 1 to 19 employees fell by much less than hirings by larger employers.

The results for the total jobs and accession figures are presented in the table on page 4³. There are several points to make:

- The trial period appears to have increased hiring. On average, hiring by SMEs was almost six percentage points higher than expected, given the relative performance of other firms and the annual hiring trends.

¹ Although the Department of Labour reviewed the first year of the 90-day trial period in 2010, it focused more on experiences and knowledge of the policy, rather than on impacts on job numbers. The report found that half of relevant employers had used a probationary period.

² We have chosen a simple statistical technique for this illustrative analysis. A more complex time-series analysis will be possible once additional data are available, and subject to resource availability. However, given the short time period of the data on the trial period and the confounding effects of the economic turmoil in 2007-2009, we judged that a simple model would be a useful initial tool.

³ The results for separations are not presented here, but are available upon request.

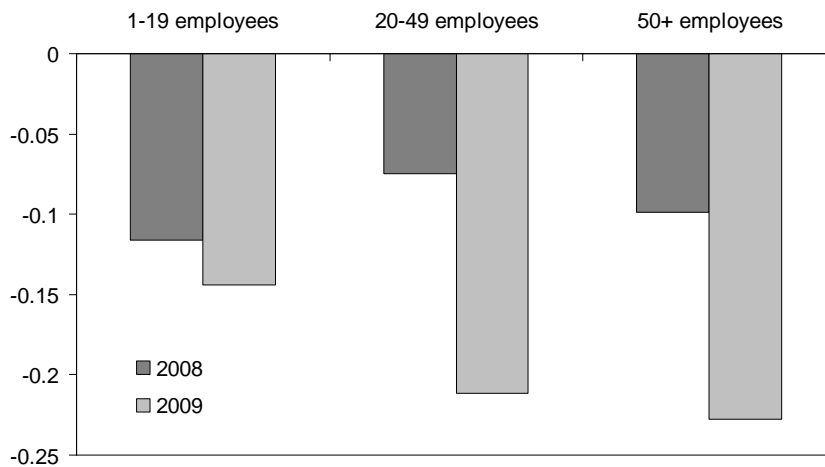
- Total job numbers for these firms were also higher, by about two percentage points.
- These positive employment outcomes happened while hiring overall was falling. The model found that hirings fell on average in 2008 and 2009.
- There was little difference in hiring behaviours across industries.

As more data become available, we suggest that the policy could be assessed with more in-depth analysis. For example, data for a longer time period would allow better analysis of the policy's impact. In addition, it is difficult to separate the impact of the policy from wider economic conditions. If economic conditions from April 2009 to September 2009 were different for SMEs than for larger firms, then the policy impacts reported here may be over- or understated. It may also be possible to assess the impact of the policy on individuals' willingness to change jobs.

This analysis suggests that the policy has been a success to date, demonstrating the value of flexible labour markets to employers and employees alike. This success is likely to continue when the trial period policy is extended to all firms in the New Zealand economy.

Figure 1 Change in hirings, third quarter (Jul-Sep)

Year over year change in hirings (proportion)



Source: NZIER

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Table 1 Regression models of changes in total jobs and hiring

Dependent variable: year-to-year change by industry (proportional change)

	Total jobs		Hirings	
	Estimate	t value	Estimate	t value
Intercept	0.0500	4.24 ***	0.0720	2.80 **
90-day trial policy	0.0232	2.19 *	0.0589	2.54 *
Industry				
Accommodation and Food Services	base		base	
Administrative and Support Services	-0.0126	-0.938	-0.00776	-0.265
Agriculture, Forestry and Fishing	0.0197	1.47	0.0491	1.67
Arts and Recreation Services	0.0225	1.68	0.0436	1.49
Construction	-0.000476	-0.0360	-0.0320	-1.09
Education and Training	0.00675	0.504	0.0107	0.366
Financial and Insurance Services	-0.0136	-1.02	-0.00170	-0.0580
Health Care and Social Assistance	0.0202	1.51	0.0163	0.554
Manufacturing	-0.0340	-2.54 *	-0.0513	-1.75
Mining; Electricity, Gas, Water and Waste Services	0.0503	3.76 ***	0.0483	1.65
Other Services	-0.00218	-0.162	-0.0102	-0.347
Professional, Scientific, and Technical Services	0.0204	1.52	-0.00983	-0.335
Public Administration and Safety	0.0278	2.08 *	0.0381	1.300
Rental, Hiring and Real Estate Services	-0.0332	-2.48 *	-0.0656	-2.24 *
Retail Trade	-0.010165	-0.759	-0.0348	-1.19
Transport, Storage, Information Media, and Telecommunications	-0.0114	-0.854	-0.0353	-1.20
Wholesale Trade	-0.0115	-0.860	-0.0492	-1.68
Year				
2006	base		base	
2007	-0.00856	-1.32	-0.0172	-1.21
2008	-0.0192	-2.95 **	-0.0961	-6.76 ***
2009	-0.0732	-8.74 ***	-0.276	-15.0 ***
Size of firm				
1-5 employees	-0.0228	-2.72 **	-0.0198	-1.08
6-9 employees	-0.0255	-3.04 **	-0.0175	-0.953
10-19 employees	-0.0283	-3.37 ***	-0.0308	-1.67
20-49 employees	-0.0345	-4.33 ***	-0.0328	-1.88
50-99 employees	-0.0101	-1.27	0.00151	0.0870
100+ employees	base		base	
Quarter				
Second quarter	base		base	
Third quarter	-0.00152	-0.330	-0.00787	-0.782
Adjusted R-squared		0.194		0.334

Note: Statistical significance denoted as follows: *** - 0.001, ** - 0.01, * - 0.05.

Source: Statistics New Zealand, NZIER