

Economic and social costs and benefits to employers of retaining, recruiting and employing disabled people and/or people with health conditions or an injury: A review of the evidence

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This research reviews existing evidence on the economic and social costs and benefits to employers of retaining, recruiting and employing disabled people and/or people with a health condition or an injury. It also identifies the limitations of estimating these monetary and non-monetary costs and benefits. Experts were selected to write individual chapters. The main chapters are accompanied by a commentary, written by another expert, to enrich our understanding of the topic. Generally speaking, the authors only discussed evidence considered to be scientifically robust. The purpose of the report is to set out what clear evidence is available to ensure that all stakeholders operate on facts and not anecdotal information or stereotypes.

Key findings

The research review came to the following conclusions:

- Many benefits are claimed for businesses that employ disabled people. Employers cite access to a wider pool of skills, improved morale, better retention rates and similar indirect business benefits.
- Employer surveys suggest that the costs of adjustments for disabled workers are small and in many cases zero. However this is not an indication of the potential costs to employers of making adjustments for disabled people in the future.
- The nature of a person's impairment is heavily correlated with his or her labour market outcomes. Employment rates are much lower for people with learning disabilities and mental health conditions than for people with sensory or physical impairments.
- Hard evidence on values for costs and benefits to employers of employing disabled people is nearly impossible to find.
- Many employers believe that disabled people are less productive than non-disabled people and fear that employment of disabled people will lead to costly workplace adjustments. The relationship between disability and productivity is not a simple one. How well the employer matches the disabled worker to the job and the extent of support offered can be important.
- Employers believe and evidence confirms that disabled people are more likely to be absent from work because of sickness than are non-disabled people however it is important to note that while this may be true on average for all disabled employees this varies greatly and is not true of every individual disabled person.
- Policy developments should consider differences between small and large employers, public and voluntary sectors and between people with mental and physical impairments.

Framework for employer decision-making

This chapter provides a theoretical context for categorising the economic forces that determine the recruitment and retention of both disabled and non-disabled workers. The conceptual model of employer behaviour makes three important points: (1) since recruiting is costly, employers want to find the 'right' workers and to retain them as long as possible; (2) employers can never predict the productivity of job candidates with certainty; and (3) while some worker traits related to productivity, such as education and workforce experience, are easy to assess, employers might rely on a variety of other traits (self-assurance, appearance, demeanour) as indicators or signals of productivity, which could put disabled candidates at a disadvantage. In this environment, the Disability Discrimination Act (DDA) might alter the employer's evaluation and decision-making process to some degree.

The influence of definitions of disabilities on the workplace

Disability as defined by the DDA says nothing about the ability to work. Rather, a DDA-defined disability adversely affects a person's ability to carry out normal day-to-day activities. In contrast, an employee with an incapacity is incapable of work 'by reason of a specific disease or mental disablement'. Over 3.4 million people who are disabled under the DDA definition were employed in 2005. To avoid violating the DDA, employers must understand its definition of disability and its coverage of impairments. Research shows, however, that many employers use informal and intuitive notions of disability and are more likely to regard as disabled those workers with visible physical impairments rather than those with mental or progressive illness.

The commentary adopts an advocacy position that focuses on social considerations related to disability definitions and policy. First, the commentary points out that models of disability focus differentially on the individual and the environment as sources of disability although

some policy spheres have begun promoting proactive steps to break down institutional barriers that are discriminatory. Although these policies are not currently incumbent upon employers, public sector authorities will, from 4th December 2006 with the introduction of Disability Equality Duty, have an increased duty to encourage equality between disabled and non-disabled people. Second, the commentary speculates that adjusting workplaces so as not to place disabled workers at a disadvantage could shift responsibility from individuals to employers, which may foster a greater willingness of workers to disclose their needs. Third, the commentary argues that employers may need to focus on different issues for current workers compared with job applicants, and that policy-makers could design approaches to encourage disabled job seekers to develop and demonstrate additional attributes that are appealing to employers.

The costs and benefits to employers of recruiting and retaining disabled workers

Hard evidence of specific values of benefits and costs to employers of employing disabled workers is very limited. The paucity of evidence results from wide variation in costs and benefits found in a single workplace and even greater variation across employers. Moreover, assessing this variation is complicated by varying motivation, competence, and effort among non-disabled employees, which makes calculation of costs and benefits difficult at best. Furthermore, many employers think that disabled people are less productive than non-disabled ones, an attitude that likely puts disabled people at a disadvantage in the labour market.

The reasons for the concentration of disabled people in low-pay and low-skill jobs are unclear. One possible explanation is health impairments; another is that people who are disabled from an early age may miss schooling and so may reach adulthood with less education and fewer skills. Research suggests that productivity differences alone cannot fully explain differences in average

earnings between disabled and non-disabled workers. This result is consistent with—but not proof of—discrimination against disabled workers.

Despite employers' concerns about the cost of recruiting disabled workers, surveys of employers suggest that the cost of adjustments for disabled workers are quite small—in many cases zero. However, there is some evidence that requiring such adjustments leads to reduced, rather than increased, employment of disabled persons. The author argues that employment of disabled people might be increased most through a number of other measures, including those that (1) reduce the gap between perceived and actual productivity, (2) reduce the direct cost of employment, (3) provide placement assistance to reduce the cost of recruiting disabled people, and (4) increase the cost of noncompliance with the DDA.

The responding commentary stresses the role of labour market clearing in the employment of disabled people. If impairments reduce productivity, then wages of disabled people could be expected to be lower than those of non-disabled people, as indeed they are. It is noted that institutional arrangements might prevent wages from adjusting fully to a worker's expected productivity, a situation that can create involuntary unemployment. Nonetheless, the combination of technological advance and innovative policy can improve the labour market outcomes of disabled people.

A second commentary on this chapter goes on to examine the sharp difference in the way employers who do and do not employ disabled workers assess their expected productivity. This could be the result of some employers' lack of accurate information and direct experience with recruiting disabled workers; it could also be that employers for whom disabled people can be as productive as non-disabled ones in fact do employ them. But the alternatives have different implications for policy. If employers lack accurate information, then policies that help inform them could be extremely effective. If, on the other hand, employers' assessments are accurate, then such policies might have little effect.

The influence of government programmes and pilots on the employment of disabled people

This chapter examines government strategies aimed at improving the employment outcomes of disabled people, emphasising the largest and most important ones, including Pathways to Work, the New Deal for Disabled People, and Access to Work. These interventions and many smaller ones attempt to enhance either the supply of disabled workers (by enhancing skills, providing support in locating work, assisting with rehabilitation, or providing financial support) or the demand for them (by defining specific legal rights, furnishing employers with incentives to recruit disabled workers, or subsidising modifications to the workplace). The question 'Which programmes work best?' is difficult to answer. While studies that randomise applicants into treatment and control groups provide the most credible estimates of programme impacts, such studies are difficult to do and are rarely employed. Many existing studies are qualitative and lack estimates of impacts. Available data nonetheless suggest that vocational advice, training, and work placement interventions are often associated with positive outcomes. In contrast, evidence on the effects of rehabilitation and in-work benefits is not conclusive. Disabled workers appear reluctant to participate in supply-side interventions such as vocational advice, a possible barrier to their wide implementation. A fuller picture is likely to emerge soon, as results from large-scale evaluations of programmes, such as Pathways to Work, become available.

The commentary provides two valuable complementary points. First, it highlights how programme reform in recent years has focused on moving disabled people towards work, but it also notes that some aspects of the Incapacity Benefit programme might undermine these efforts. Planned reforms to the Incapacity Benefit programme offer an opportunity to align it with work-focused reforms. Second, the commentary was able to include some very recent new evidence which supports the chapter's overall

conclusion of 'cautious optimism' about government efforts to increase the employment of disabled people, although important studies are ongoing.

Evidence-based recommendations for policy and research

Although the papers in the volume do not find strong evidence to support specific policy changes, several themes emerged. First, policies should treat employers as important customers: laws and regulations attuned to employers' goals are more likely to be successful than those that ignore them. Second, programmes should support existing employer-employee relationships as much as possible. Employers typically benefit by retaining workers who possess job-specific skills. Third, efforts designed to reduce employer uncertainty about disabled applicants should be explored, since employers might otherwise forgo recruiting potentially valuable disabled applicants. Fourth, training programmes, particularly those providing customised training, should be expanded since they might ameliorate, at least in part, the lower average skill level of disabled people and employers' uncertainty about recruiting them. Moreover, some evidence suggests that training programmes have successfully placed disabled persons into jobs.

Policies must be developed with an eye to key distinctions among employers and disabled people, in particular, differences between small and large employers, between public and voluntary entities, and between people with mental versus physical impairments. Policy aimed at non-disabled workers and applicants will inevitably affect disabled people. In addition, laws such as the DDA may be unknown to many employers and a source of anxiety to others; policies designed to operate through the DDA need to take these factors into account.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84712 146 2. Research Report 400. December 2006). It is available from Paul Noakes at the address below.

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