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# Employers' social contacts and their hiring behavior in a factorial survey



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## ABSTRACT

We investigate whether referrals from employers' business and professional contacts matter in the hiring process. Additionally, we examine whether the effect of referrals varies depending on: (1) the signaling role of education during the hiring process, and (2) applicants' level of education. Based on a combination of a factorial survey and an experimental design with a sample of English employers, we measure the effect of referrals on employers' hiring assessments. We find only weak evidence that referred applicants are considered more trainable than otherwise identical applicants that do not have a tie with the employer. More detailed analyses show that referrals do matter for employers who consider education a noisy signal, in line with the argument that informal recruitment can represent a strategy for employers to compensate for poor signaling. Referrals are especially beneficial for highly educated applicants, probably because employers need some guarantee against possible wage or turnover costs.

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## 1. Introduction

Networks of interpersonal ties are often described as conduits for the flow of high-quality information. In particular, their role in fostering labor market opportunities has been addressed by sociological studies on the importance of social contacts in the job search (De Graaf and Flap, 1988; Granovetter, 1995; Lin, 1999; Erickson, 2001; Flap and Boxman, 2001; Trimble and Kmec 2010). From a job-seeker's perspective, obtaining information from networks of interpersonal ties<sup>1</sup> (i.e. friends, relatives, colleagues, or acquaintances) is known as *informal job search*. From an employer's perspective, it is known as *informal recruitment*.

Informal recruitment methods and informal job search activities have in common the fact that a tie conveys in-depth information about job applicants and job opportunities, respectively. However, the literature on the role of ties in the labor market has mainly considered the supply side of job matching, i.e. job-seekers, with a focus on their use of networks during the job search. Marsden and Gorman (2001) stress that interpersonal ties can also play a role in the recruitment process: specifically, employers may recruit via referrals by publicizing job openings among incumbent employees or business and professional contacts and asking them to recommend qualified applicants. Employers' reliance on referrals from incumbent employees during the recruitment process has been investigated in a number of studies which use detailed personnel records to measure the chances of referred job applicants' success at each, consecutive stage of the hiring process (Fernandez et al., 2000; Petersen et al., 2000). Findings from these studies confirm that referrals from incumbent employees

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<sup>1</sup> In this paper, we will use the terms interpersonal ties and social contacts interchangeably.

increase the chances of being invited for a job interview and lead to higher job offer rates compared to non-referred applicants.

We aim to contribute to this literature by examining an important type of referral that has been under-researched, namely business and professional contacts of the employer. These are network contacts that do not originate in the firm. They can be established and 'mobilized' in gatherings of professional and branch organizations, conferences, online networks, but also in informal settings, for instance while playing golf or at a charity gathering. A few studies emphasize the importance and frequency of this type of recruitment (Petersen et al., 2000; Behrenz, 2001; Marsden, 2001; Pinkston, 2012). In addition, the increasing impact of on-line networks, such as LinkedIn, connecting business and professional contacts raises the issue as to what is happening in the external networking world. Hence, our first research question addresses whether referrals from business and professional contacts matter for employers' hiring behavior. Theoretically, we provide various arguments as to why these contacts might matter, by referring to a set of mechanisms used in previous seminal works of Fernandez and others (e.g. Fernandez et al., 2000; Neckerman and Fernandez, 2003; Fernandez and Galperin, 2014) that studied referrals from incumbent employees from the perspective of employers. Empirically, we apply a combination of a factorial survey with an experimental design, allowing for a proper assessment of the effect of employers' business contacts on their hiring decisions.

From a methodological point of view, our study speaks directly to both Mouw's (2006) and Fernandez and Galperin's (2014) recent work on how to address issues of endogeneity when studying the role of ties in the labor market with non-experimental data: namely, well-connected individuals may differ from individuals with few or no labor market ties on a number of unobserved characteristics that affect both their likelihood to be part of a network and their labor market outcomes. If this were the case, the effect of social ties would be spurious due to social homophily. We address this selection bias by relying on a factorial survey and an experimental manipulation, in line with Mouw's (2006: 81) call for "fairly simple methods combined with innovative use of quasi-experimental data". A factorial survey is a regression-based technique to analyze how respondents evaluate hypothetical objects, profiles or situations that are described on vignettes (Rossi and Nock, 1982; Jasso, 2006; Wallander, 2009). The method is well-suited to study complex decision-making processes such as hiring. This is because, compared to other methods, in factorial surveys various attributes are varied simultaneously, limiting the risk of socially desirable answers (Wallander, 2009; Mutz, 2011).

In our study, we asked employers to rate a number of vignettes describing hypothetical job applicants that randomly varied along certain characteristics (e.g. gender, qualifications, previous work experience). The ratings reflect employers' perception about the likelihood that: they would hire the applicants; and the applicants, if hired, would be easy to train and fit with the corporate culture of the organization. The experimental manipulation allowed us to collect, for each employer, ratings of the same applicants under two conditions: when referred and when non-referred by business and professional contacts of the employer. By treating the latter as the counterfactual for how applicants would be assessed if not referred, we are able to cope with the fundamental challenge, stressed by Mouw (2003, 2006), of comparing referred applicants with *otherwise identical applicants* who cannot rely on a tie with the employer. Our focus on the demand side of the labor market also adds to an emerging literature pioneered by Fernandez and Galperin (2014) that looks at the causal effect of referrals from the employers' perspective. Compared to their study, which analyzed referrals from incumbents based on data on repeated applications in a single firm in the United States, ours has the advantage that it isolates the effect of referrals for applicants that apply for the *same job opening* and are screened by the *same organizational agent*. In addition, we focus on a different type of tie: that between the employer and a business or professional contact.

The contribution of our study goes a step further by linking this type of informal recruitment to the signaling role of education during the hiring process. Previous studies have shown that employers, despite having school-based indicators of human capital (e.g. grades, transcripts), are less inclined to use this information during the hiring process unless it is obtained from trusted channels, such as their own workers or other long-term social networks (Miller and Rosenbaum, 1997; Brinton and Kariya, 1998; Rosenbaum et al., 1990). Thus, these studies relate employers' use of networks in recruitment to the signaling role of education: if education does not convey clear or credible information (i.e. education is a noisy signal for employers), one would expect employers to rely more heavily on their social contacts. Research on recruitment also suggests that information obtained from informal recruitment channels should be even more important when formal institutions such as the education system fail to send clear signals to employers (Marsden, 2001). We are not aware, however, of any study that empirically tests whether this is the case. It is thus an open question whether employers will rely more on their business and professional contacts when education is perceived as a poor signal. Moreover, it is also unknown whether employers rely on their contacts more frequently when an applicant's educational qualification is high than when it is low. Given the higher uncertainty and the expected investments related to hiring applicants with higher levels of education (Flap and Boxman, 2001), employers may find some form of guarantee in their ties with their business and professional contacts.

Our study is based on unique survey data of employers' hiring behavior in England. England is a typical case of a weakly standardized education system: multiple, somewhat overlapping qualification frameworks exist, and standards with regard to the content of curricula and the organization of teacher training are lacking (Scherer, 2005). As a result, one can expect variation in the way English employers perceive the signaling role of education. Our data allows us to test whether English employers who perceive education as a noisy signal, use informal recruitment channels as a compensatory strategy.

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