

Social Networks and Job Referrals in Recruitment

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ABSTRACT : This paper investigates whether using recommendations for recruitment can help reduce search frictions in the labor market. I use data on all the board directors of large listed US companies between 2004 and 2008. This is linked with extensive information on their social networks and detailed information on the referrals underpinning new independent board appointments. First, I provide some new empirical facts from this novel data combination. Compared to non-referred new directors, referred directors are 10.5 percentage points more likely to share a professional tie with a current board member. However, they are equally likely to be connected through university, army, or leisure activities. Secondly, I use the predictions of a theoretical model to discriminate between information provision and bias in the use of referrals for recruitment. Referrals help select directors with higher ability, in particular the type of ability that is partially observed at the time of hiring. In addition, homophily in networks does not seem to be driving the fact that high ability incumbents recommend high ability entrants.