

Human Resources

The value of internal referrals

CINDY BERGHUIZEN &
CHIEL PETERS
University of Amsterdam
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"Human resources are like natural resources; they're often buried deep. You have to go looking for them, they're not just lying around on the surface. You have to create the circumstances where they show themselves."

— Ken Robinson

Abstract

Introduction

Personal Experience

In this section our personal experience and thoughts related to the value of internal referrals are stated. This section was written before any of the relevant theory and models were researched to avoid any biases in our observations. The effects of internal referrals are measured on two different levels, the personal level that is the effects on a person making the referral and the organizational level which measures the effects based on the organization as a whole. To give some contexts to our personal experience first our backgrounds are discussed after which the effects on the two levels are mentioned.

Background

Since three years I have been working at small risk consultancy firm with approximately ten employees. All the employees have the same background education and are working in a very specific field. The projects are done in very small groups which consist of one to three persons. Being so small means the communication lines are short and a lot of situations are discussed with the whole firm. Recently a new student position opened up and sollicitations poured in. Now one of my college friends which I now know for about ten years was searching for such a position. From the ten employees four of those came directly from referrals made by the employees themselves so the culture of referrals was there. After a few moments of thought I decided to go through and later on he was hired for the position. In the next section this decision is elaborated upon and the thought process is carefully.

Personal Factors

This section covers the personal factors involved into internal referrals. Referring a friend or acquaintance often involves numerous trade offs and carefull examination. Each of the following subsections contains a question or thought process that lead to making the referral decision.

Does the person being referred fit into the team?

What dangers do I run when I stick my neck out for this person?

What are the consequences of breaking the seperation of business and private life?

Organizational Factors

In this section the organizational factors of internal referrals are discussed. As stated in the introduction a lot of firms have bonus referral programs which reward employees to refer friends or acquaintances. Therefore it seems there are only benefits to referrals and no downsides. These benefits and possible downsides are discussed in each of the subsections.

What are the main differences between external or internal referrals?

Do referrals create islands in the team?

Does the personal atmosphere hurt the performance?

Theory and models

Conclusion

Annotated Bibliography

In this section the basis for the conclusions made in the main sources that are used throughout this paper. The basis contains excerpts from the original source.

Who gets the job referral?, Beaman, L. & Magruder, J. [1]

"By interacting initial OP ability with performance pay in column (3), we see that the differential performance of referrals recruited by high ability OPs is driven by OPs who face performance pay incentives. Therefore, high ability individuals refer high ability people only when properly incentivized, suggesting that the networks of high ability OPs are heterogeneous and that high ability OPs do have the capacity to screen."

This laboratory experiment by Beaman tries to find out who gets job referral by how capable this person was by performing ability test. The OP (original participants) conducted a test and were asked to refer a friend to the "job". This friend also conducted the same test and varying fixed referral and performance referral fees were tried out. The above conclusion came out.

"Thus, while all OPs change their referral choices in response to changing contractual conditions, only high ability OPs do so in a way which results in higher ability referrals. As the model emphasized, a variety of possible differences between high and low ability OPs could explain why performance incentives did not induce low ability OPs to recruit higher ability referrals: they may not know high ability referrals; they may lack information on the ability of their network members; or the tradeoff between their network incentives and the performance incentives may be too large"

Here a conclusion is drawn that low ability OPs did not produce good referrals even with a performance incentive. The authors note a couple of possible reasons.

The relationship between recruiting source and employee success, Caldwell, D. & Spivey, W. [2]

The Effect of Workplace Gender and Race Demographic Composition on Hiring Through Employee Referrals, Taber, M. & Hendricks, W. [3]

Recruiting through advertising or employee referrals, Rafaeli, A. et al. [4]

Do informal referrals leads to better matches?, Brown, M. et al. [5]

Data mining to improve personnel selection and enhance human capital, Chien, C. & Chen, L. [6]

References

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