

### The use of social networks in recruiting processes from a firms perspective

Rebien, Martina

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# IAB-Discussion Paper

5/2010

Articles on labour market issues

## The use of social networks in recruiting processes from a firms perspective

Martina Rebien

# The use of social networks in recruiting processes from a firms perspective

Martina Rebien (IAB)

Mit der Reihe „IAB-Discussion Paper“ will das Forschungsinstitut der Bundesagentur für Arbeit den Dialog mit der externen Wissenschaft intensivieren. Durch die rasche Verbreitung von Forschungsergebnissen über das Internet soll noch vor Drucklegung Kritik angeregt und Qualität gesichert werden.

The “IAB-Discussion Paper” is published by the research institute of the German Federal Employment Agency in order to intensify the dialogue with the scientific community. The prompt publication of the latest research results via the internet intends to stimulate criticism and to ensure research quality at an early stage before printing.

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## Abstract

Sociological as well as economic research is interested in the role of social networks in staffing processes. Empirical studies usually consider them as relevant from the job seekers' point of view. But there is only little knowledge of firms' perspective on this issue.

This paper contributes to decrease this research gap with results on base of representative data from the German Job Vacancy Survey for the years 2004 until 2008 with up to 9000 participating firms yearly. It is the goal of this paper, to characterize and structure firms that use social networks in staffing processes, using information not only about the firm itself, but also about the position that has been filled.

The results show a tendency that networks help to reduce search costs and are especially useful in difficult economic situations. The positions filled via networks are more likely to be stable positions either in a very high labour market segment or in a very low one with rather difficult working conditions.

## Zusammenfassung

Die theoretische wie auch die empirische Netzwerkforschung beschäftigen sich seit geraumer Zeit auch mit dem Thema der Besetzung offener Stellen über Netzwerke. Die meisten empirischen Forschungsbeiträge untersuchen die Rolle von Netzwerken jedoch aus der Perspektive der Arbeitsuchenden.

Dieser Aufsatz leistet einen Beitrag, diese Forschungslücke anhand von gesamtwirtschaftlich repräsentativen Daten aus der IAB-Erhebung des gesamtwirtschaftlichen Stellenangebots für die Jahre 2004 bis 2008 zu schließen. Es wird untersucht, welche Betriebe Netzwerke bei der Personalrekrutierung genutzt haben und um welche Art von Stellenangebot es sich jeweils handelte. Die Ergebnisse zeigen eine Tendenz, dass die Stellenbesetzung über Netzwerke Einstellungskosten reduziert und dass es sich häufig um Stellen handelt, die mit schwierigen Arbeitsbedingungen verbunden sind. Die Positionen die auf diesem Wege besetzt werden sind häufig unbefristete Stellen und es werden entweder sehr hoch, oder sehr gering qualifizierte Personen auf diesem Wege eingestellt.

**JEL classification:** J23, J64

**Keywords:** social networks, labour demand, recruitment

## 1 Introduction

To receive information on possible candidates employers invest in job advertisements, screenings of enrolees and sometimes even assessment centers. The formal ways of finding candidates for open positions are various and sometimes very cost-intensive. But the aim of an employer must be to find well fitting persons for firms' vacancies at the lowest possible costs. Formal methods of staff search and working contracts often do not fulfil these purposes to full extent. One way the employer can get further information on the persons' character and keep the search costs on a minimum is to use social contacts for the search for new employees. Whether employers use their network contacts to fill an open position is rather rarely explored. If so, those studies mostly concentrate on single firms (for an overview see Mouw 2003).

This article is based on data from an employer survey that is representative for a whole economy. Herewith it contributes to enrich the discussion on the meaning of social networks on the labour market on an empirical base from the employer's perspective. Most studies on the use of social networks focus on an employee's or job seeker's point of view. But for firms also, the use of social networks is an important topic in staffing processes.

The second part of this paper will give a brief overview of some important findings research came up with by now. The focus lies on research questions concerning characteristics of positions that are filled by and firms that use social networks. The third part will briefly present the possibilities the German Job Vacancy Survey gives to increase the knowledge on firms staffing processes when using social networks and presents the models. The fourth part of the paper deals with the results and finally there will be a short summary of the results.

## 2 Social Networks on the Labour Market

Social networks come to be an important aspect concerning staffing processes and movements on the labour market. Indeed, network analysis concerning the labour market put a strong focus on the possibilities job seekers have when using their social capital to find a job. The role of social networks concerning staffing processes from the firms' perspective has not been explored as well, even though networks are one of the most frequently used ways of recruitment. In 2008 almost 30 percent of engagements in Germany were realised by using social networks for recruiting (Heckmann et al. 2009). Those results are relatively close to the findings of Holzer in 1996, who found 25 percent of recruitments via social networks.

Studies that focus on employer's perspective are mostly case studies focusing on single firms or industries (Windolf/Hohn 1984; Sehringer 1989; Fernandez/Weinberg 1997; Hartl et al. 1998; Fernandez et al. 2000; Petersen et al. 2000; Fuller-Love 2009). Some researchers used representative data that cover certain regions (Deeke 1986; Holzer 1996; DeVaro 2008) or a sample from firms that is representa-

tive, but not for a whole economy (Holzer 1987, Marsden 2001). In the following we will have a deeper look into the named studies and compare their findings with some from jobseeker's perspective.

Concerning the argument, that social networks help to reduce search and recruiting costs not only for job seekers but also for firms (Franzen/Hangartner 2006, Marsden 2001), the expectation is obvious that especially small firms have an interest in recruiting by the means of their social capital. Smaller firms usually do not have human resources departments. Most likely the owner will be responsible for new recruitments. Therefore, smaller firms will probably have a stricter time frame for their recruitment and do not usually have the money to use cost and time intensive ways of recruitment. Therefore the extensive search for new employees will be more common in bigger firms (Barron/Bishop 1985). Furthermore, I would assume that the use of networks is more likely in firms that experience difficulties in their economic activities. Most probably those firms recruit less in the first place, but if they do, they will look for a way to save costs for recruitment and therefore use their personal contacts - if networks really do have this effect. I would assume that more firms had difficulties in a bad economic reality, such as times of recession or in poor regions. Therefore the use of network contacts in recruiting processes is more probable in regions that have economic difficulties and in the years of recession 2004 and 2005.

I would expect further that this way is rather common in private sectors (Hartl et al. 1998; Marsden 2001), rather than in public or social services. The argument is that, in Germany the latter have more formal standards to recruit staff and are therefore less likely to use network contacts.

Many authors from both perspectives focus on the question whether the way of recruiting a candidate or finding a job depends on the qualification level of the job seeker. Some argue that especially high qualified persons are recruited via social networks (Lin 1999, Marsden 2001), also because they seemingly possess more useful social capital than low qualified persons. In other studies authors argue, that social networks are used especially when there is no requirement of certain social or cognitive skills and therefore a rather low qualification level (Windolf/Hohn 1984; Deeke 1986; Holzer 1996, Ioannides/Loury 2004, Hellerstein et al. 2008). In this paper, I follow the assumption of many authors and expect a u-shaped association of the required qualification level and the use of social networks for recruitment (i.e. Boxmann et al. 1991, Voss 2007, Kropp 2010). The expectation is that firms want to fill very demanding and leading positions with persons that are reliable. A wrong decision here would mean very high costs of replacement and maybe even wrongdoings if the false person was engaged. In contrast, if firms want to fill a vacancy that has only a very low productivity and does not require special skills they most probably will not spend time and money in extent to fill this position, also because the costs to exchange the person are not as high as in the positions named above.

Literature shows, that very different persons are recruited by the use of network contacts. Supposable, there is also a variation concerning the character of the vacancies and even the character of the recruiting firm. Therefore the concentration of this paper lies on identifying firms that are likely to use network contacts for recruitment and on the characteristics of positions that are recruited this way. By the use of representative firms' data, this papers aim is it to enrich the discussion on firm's use of networks in recruiting processes.

### **3 Data and Methodology**

In the following the German Job Vacancy Survey is introduced and the models are explained.

#### **3.1 The German Job Vacancy Survey**

Our results base on data from the German Job Vacancy Survey of the Institute for Employment Research for the years 2004 to 2008. The aim of this survey is to get information on the number and structure of job vacancies and recruiting processes. Once a year in the fourth quarter a representative sample of firms in 28 economic sectors and eight firm size classes is asked to fill out a written questionnaire. The sample is drawn from the employment statistics of the German Employment Agency, which contains the population of all businesses that have at least one employee covered by social security in Germany. The sample is disproportional layered and contains 75000 firms. The response rate lays around 20 percent and is representative for the whole economy (for more detailed information see Kettner et al. 2007).

One part of this questionnaire relates to the very last case of an engagement during the prior 12 months on which around 9000 firms with engagements participate each year. The answers are projected to the total number of new engagements in Germany and can be interpreted as representative for the whole economy. With this questionnaire we raise information on the position that was filled and on the engaged person in detail. The restriction of the data lies in a bias concerning recruitment processes as a whole. The answers do not give any information on job searches that did not lead to recruitment. Therefore, there is no information on the characteristics of all candidates that applied for a position. The data only give detailed information on the last successful recruitment in a firm. It is important to keep this in mind for the following analyses.

The question in the questionnaire that is fundamental for this paper is which way of searching for new candidates led to the staffing of the last open position in that firm. Beside others, one answer was "employees / personal contacts" and concerned the social networks. From this answer the dependent dummy variable "staffing via social networks" was created. It takes on the value 1 if the firm filled its vacancy by the help of networks and the value 0 if it used another way of recruitment.



### 3.2 Specification of the models

The aim of this paper is to evaluate the influence of the firm and the position characteristics on the probability that a firm uses social networks to fill its open positions. To evaluate those questions two logistic regression models were calculated.

#### *The first model: firm specific variables*

The first model evaluates the kind of firm that uses social networks for recruitment. The survey gives information on the size of a firm, on the business sectors and on the region it is located in.

To characterize the firm, additional information from the survey on the development of the number of employees and the churning rate were taken into the model. The first named variable is computed by applying the number of employees in a firm during a 12-month-period to the average number of employees in a firm in the same period of time. What follows is a ratio that is normalized between -2 and 2 to avoid effects resulting from the firm size (Davis et al. 1997: 188pp.):

$$b = \frac{2(B_t - B_{t-1})}{(B_t + B_{t-1})} \quad (1)$$

If there are no changes in the number of employees in a firm the ratio takes on the value 0. But also if firms have as much engagements as they have dismissals it takes on the value 0. Because those two kinds of firms are very different, the churning rate was computed additionally. It measures the extension of engagements and dismissals that are not discovered by simply looking at the balances of the number of employees and is normalized between 0 and 1. It takes on the value 1 if the number of engagements and dismissals in a firm is equal, 0 if one of those measures is higher than 0 while the other one is equal to 0 (Garloff 2005: 10):

$$CR = \frac{FR - |ZR - AR|}{FR} \quad (2)$$

Those two indicators measure whether growing or shrinking firms rather use social networks and if the turnover of employees has an influence on firms' decisions whether to use networks or not.

Furthermore, the model contains a dummy variable that takes on the value 1 if the firm experienced any economic or business difficulties during the prior 12 month. This variable will give indications, whether the reduction of costs has an influence on the choice of the way of recruitment. The expectation is that firms that have difficulties recruit less in the first place, but if they do, they are more likely to use networks for recruitment, assumingly to save costs.

It is also controlled for the years 2004 to 2008. This follows the assumption that the years will give indications on the economic situation in Germany and its influence on the choice to use networks. Those years cover the time of a recession and the fol-

lowing upswing of the economy. The influence of the economic situation is also controlled for by two economic indicators, such as the unemployment rate and the gross domestic product (GDP). Both are clustered by German federal states.

*The second model: position specific variables added*

In a second step position specific variables were added to the first model. First, three dummy variables were implemented that give information whether the filled position required working experience in this very special profession, whether it required social competencies or leadership competencies. The expectation is that all three of them are important for firms' decisions to recruit via networks especially in connection with the qualification level the position requires. If the argument holds that there is a u-shaped association between recruiting via networks and the qualification level, networks should be important on the one hand if the named special competencies are required what speaks for a rather high qualification level and on the other hand if the qualification level on a position is rather low.

Another indication of a u-shaped association would be if the dummy variable on whether the position contains difficult working conditions such as heat, heavy noise or else, should show a positive association to recruiting via social networks on one hand, and on the other hand, if the required level of qualification is rather high.

Further, this way of recruitment ought to result in temporary contracts because of the high informality of the recruiting process and the assumption that firms act risk-averse. Temporary contracts might therefore be connected to a lower risk than open ended ones.

## **4 Results**

Each one of the models show good fitting attributes (see following table). The changes in the log-likelihood are significant on a one percent level and the Goodness-of-fit tests, Pearsons-Chi<sup>2</sup> and Hosmer-Lemeshow-Chi<sup>2</sup>, are both insignificant, which suggests a good fit of the models. The major results seem to be robust, since they are stable in their significance in both models.

As expected, both models show that small firms rather than large ones decide to use network contacts for recruitment. The changes in the number of employees have no effect, but if firms have a high movement rate (without changing their size - churning rate), the recruitment via networks is less likely. This gives evidence that firms not only use contacts to warrant a fast and uncomplicated filling of the vacancy, but that there is more to the recruiting via social networks.

The findings also show that the use of network contacts for recruiting is less likely in the sector of private, social and public services than in any other business sectors. This fits the assumption that in this branch the use of formal recruiting methods is very distinctive.

**Table**  
**Results of the logistic regression models**

staffing via social networks	odds ratio	standard error <sup>1)</sup>	odds ratio	standard error <sup>1)</sup>
unemployment rate	1,014 ***	0,003	1,017 ***	0,003
gross domestic product (GDP)	0,963 *	0,020	0,966	0,021
<b>characteristics of the firm</b>				
<b>firm size class</b>				
<i>reference category: 50 - 199 employees</i>				
1 - 9 employees	2,583 ***	0,135	2,490 ***	0,123
10 - 49 employees	1,662 ***	0,061	1,626 ***	0,055
more than 200 employees	0,573 ***	0,030	0,598 ***	0,030
changes in the no. of employees (adjusted for firm size)	1,080	0,077	1,062	0,074
Churningrate	0,734 ***	0,024	0,723 ***	0,025
Difficulties in the last 12 month	1,106 ***	0,029	1,090 ***	0,030
<b>Business sector</b>				
<i>reference category: Private, social and public services</i>				
Agriculture, fishery	2,506 ***	0,218	2,102 ***	0,204
Construction	1,662 ***	0,064	1,486 ***	0,073
Mining, manufacturing, energy	2,296 ***	0,097	1,976 ***	0,081
Trade, hotel and catering, transport	1,580 ***	0,092	1,341 ***	0,091
Banking, insurance, business services	1,462 ***	0,066	1,403 ***	0,079
<b>Year</b>				
<i>reference category: 2005</i>				
2004	0,977	0,041	0,968	0,041
2006	1,072	0,059	1,063	0,060
2007	0,942	0,051	0,941	0,051
2008	0,812 ***	0,031	0,824 ***	0,030
<b>characteristics of the filled vacancy</b>				
working experiences especially in this profession			1,069 ***	0,027
Social competencies			0,868 ***	0,020
Leadership competencies			1,237 ***	0,038
Employment contract is open-ended			1,091 **	0,045
Difficult working conditions			1,181 ***	0,038
<b>Requirements of the position</b>				
<i>reference category: position requires a degree of a technical college</i>				
position does not require training			1,637 ***	0,110
position requires vocational training			1,128 ***	0,041
position requires an university degree			0,964	0,046
Number of obs	25569		25569	
Likelihood-Ratio	2008 ***		2208 ***	
McFadden's Pseudo R <sup>2</sup>	0,061		0,067	
Pearson chi <sup>2</sup>	0,577		0,423	
Hosmer-Lemeshow chi <sup>2</sup>	0,731		0,798	
Count R <sup>2</sup>	0,667		0,671	

<sup>1</sup> robust standard errors adjusted for cluster at german federal states level

\* significant on 10%; \*\* significant on 5%; \*\*\* significant on 1%

Moreover firms that reported difficulties in their business activities are more likely to use network contacts for recruitment. This is also close to the results that networks are less important in the year 2008, when Germany experienced an economic boom, in reference to 2005. This assumption is supported by the results on the unemployment rate and the gross domestic product. The models show a higher chance that firms use network contacts for recruitment, when the unemployment rate rises about one percentage point. While the growth of the GDB, only in the first model, shows a reduction of the chance that network contacts are a successfully used way of recruitment.

Therefore, the assumption is very likely that networks help to reduce costs. Above all, if the region a firm is located in experiences a recession or economic difficulties

and if the firm itself has difficulties, the use of network contacts for recruitment seems to be more likely. While on the opposite, firms are more likely to use other ways of recruitment, when the economic situation is better.

Having a look on some characteristics of the to-be-filled vacancy, the second model shows that networks are rather used to fill vacancies that have an open-ended contract. Further requirements on one side such as working experiences in this very profession, social and leadership competencies are more likely to go together with recruitment via networks. All those indicators speak for rather stable conditions of the open position and the requirement of a higher qualification level when using network contacts. On the other side, the results show that especially low and medium qualifications are required when recruiting this way. The conditions on the position are rather difficult in terms of heat or heavy noise. Those findings might also be an explanation why only few studies found positive effects of the use of network contacts concerning higher wages or prestige (for an overview see Loury 2006). After all, the results confirm previous findings in the literature also from the employers' perspective that there is a u-shaped association between qualifications and the recruitment via network contacts.

## 5 Summary

The aim of this paper was to discover firm and position specific characteristics that influence employers' decision to use network contacts for recruitment. For the first time it was possible to use data that are representative for a whole economy. The logistic regression models yield robust results on questions that were discussed.

The results show a tendency that networks are used by smaller firms and in difficult economic situations. Therefore the assumption is obvious, that they really help to reduce search costs. Further, the positions filled via networks are more likely to be stable positions either in a very high labour market segment or in a very low one, where the working conditions are difficult. Therefore, the assumption of a u-shaped association is confirmed. Those results also indicate the difficulties to find connections between firms' use of network contacts and wages and prestige of the position.

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Institute for Employment Research  
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### Editorial staff

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### For further inquiries contact the author:

Martina Rebien

Phone +49.911.179 3154

E-mail [martina.rebien@iab.de](mailto:martina.rebien@iab.de)