

# Finding Talent:

A Study of Contacts and Careers

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*This study continues work on the economic sociological question of hiring in the tradition of Mark S. Granovetter. In his 1974 study, Granovetter discovered that social contacts or other “weak ties” often helped unemployed men in their search for procuring new employment. This research looks at sociological influences on the labor market from the perspective of the employer to see how managers choose whom to fill positions under their supervision. Using the case study of fifteen managers at a large financial services corporation, I find that managers, regardless of level, are totally driven by a need for information on prospective candidates for positions in order to find the most-effective candidate. This need for information often leads managers to turn, when possible, to various networks of affiliations in finding, recruiting, and placing employees, as the networks can offer more reliable candidates than can “blind-recruiting”.*

## ***EXPLORATIONS INTO THE DYNAMIC OF HIRING***

Remember back to grade 10, being at the high school dance and feeling attracted to that special person? In fact, you even asked him or her for a dance. What happened immediately after? That person looked to his or her best friend for a quick “reference check.” Whether screening a future spouse, contractor, boss, or employee all of us have been directly involved in the hiring process. - Denis L. Cauvier

We are all often involved in a process by which we carefully select another person to fulfill a certain role of importance. The classical case of participation in the labor force represents an instance in which hiring decisions have broad implications of both economic and sociological importance. In aggregate, decisions made by hiring managers are major determinates of the economic and social organization of our society including wage determination, gender and racial minority participation in various fields and at various levels, class separation, and the application of social affiliation and personal networks on the labor force. Of course, in a free-market labor force there are two factors that determine the placement of any individual into a position – a choice of the potential employee and a choice of the potential employer.

Much research explores how employees found their present employment and this research finds an important link between previous interpersonal affiliations and present employment. In 1974, Mark. S. Granovetter completed an ambitious study as a graduate student at Harvard University to learn how 282 men in Newton, Massachusetts found their present employment. To broadly summarize, Granovetter discovered that many men learned of the

existence of their present job, and made contact with their present employer, through some sort of already established interpersonal affiliation. Such affiliations could be familial or social connections, or connections through school or past work experiences, but were more often than not “weak-ties” from their personal network. Much other research has been conducted, often sponsored by the U.S. government or corporate human resources (HR) offices, to learn about how workers find employers, with the goal of improving the efficiency of labor allocation and reducing frictional unemployment. In the 20<sup>th</sup> anniversary edition of his work, Granovetter notes that, “historically, job-search theory has arisen in a context that gives it this particular blind spot. These models have not had as their main goal the understanding of all processes by which people are matched to jobs, but rather of the dynamics moving people between unemployed and employed status, with special reference to the impact of unemployment benefits on the efficient allocation of labor (1995 pg. 142). These studies exist of course because unemployment is always a hot-button political issue, especially as it tends to disproportionately affect minority and low-income households.

Focusing on an employee’s search for a job alone, however, leaves a large part of the hiring dynamic unvisited. First, it ignores the many who find new jobs without an active search or inter-job period of temporary unemployment. According to Granovetter’s 1974 study, nearly 30% of his participants denied having had an active job search. Granovetter alludes to other surveys that suggest that the absence of a job search is a characteristic at least twice as apparent (60% or more) for managers and those with high incomes (1994, pg. 143). How can one explore the job allocation process for all groups? The answer is to tap a relatively unresearched group, the hiring managers, for their perspective on how they recruit, field, and find a “best-fit” person for any opening under their supervision.

## ***METHODOLOGY***

This study seeks to explore the hiring dynamic from the perspective of hiring managers. Because of the intended size and time allotment for this research, I thought it best to explore hiring from the perspective of a single industry and kind of organization. From an assessment of my own network of affiliations, I decided I would have the most success in attempting to research hiring in the setting of a very large financial services firm. Research conducted by other academics can be used along with my own findings in order to reach hypotheses as to how aspects of the hiring dynamic might differ in other organizations or industries. However, from my work alone, we will only be able to explore conclusions with any level of certainty regarding this single case example.

This study is very focused in its intent, exploring hiring based on the responses of managers and executives at a single firm. Special pains were taken throughout this project to protect the anonymity of all respondents. In part, I believed this anonymity was key in getting participants to speak candidly on the subject. Because all respondents are colleagues of one another, there was also concern that individuals would be able to identify the responses of their colleagues in this study. For this reason, the precise methodology used in selecting respondents is revealed in a sealed appendix to this study that will only be made available to selected academics. Otherwise, the following should suffice. I spoke with fifteen individuals who are all managers at various levels of a single corporation. This corporation, which I will refer to simply as *Financial America*<sup>1</sup> is a large American-based internationally marketed financial services corporation offering a wide array of products for cradle to grave financial planning. It is certainly one of the 100 largest American corporations with an employee base of about 100,000

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<sup>1</sup> All proper nouns in this paper, introduced in italics, are fictitious though descriptive.

and several billion dollars of managed assets. Of course, the hiring practices used at any one company will be shaped by corporate policy and the model of the corporate leadership, however no doubt for such a large and global company, our analysis here will be somewhat applicable to other large corporations, particularly those that are service oriented. In order to facilitate this broader application of my findings, I asked all subjects to answer questions based on their lifetime of experience at any company they had ever worked for, not merely their experience at Financial America in their present position.

In this study, I spoke to four levels and functions of people defined by my own classification system: managers (4), senior managers (4), very senior managers (4), and human resources staff (3). Managers typically oversaw a very narrow function of Financial America's corporate services, and had usually between 10 and 15 people under them. Senior managers typically oversaw several related functions of business, had more experience hiring, and supervised between twenty-five and several hundred employees. In all cases, very senior managers had a staff of over 1,000 and these individuals represented the first, second, or third ladder of the corporate hierarchy, and are arguably all among the company's ten most important leaders. I occasionally refer to both senior managers and very senior managers collectively as "executives". Members of human resources staff were all senior managers who oversaw various functions of recruiting and hiring for Financial America. While each had only hired for their own staffs a moderate number of times, each were responsible for hiring practices for at least 1,000 recent hires. A key part of this study was to see if differences in hiring methods were in any way proportional to level of seniority, so I was particularly looking for gradients from managers to senior managers to very senior managers in the way subjects responded to

questions. Such gradients among all fifteen respondents are quite apparent, although, overall a general agreement exists among all levels of management about how to conduct job-placement.

This study sought to understand how, if at all, along these different levels of seniority, social or workplace connections entered into the hiring and promoting process. In order to gauge such differences, all subjects were asked to consider the following situation as it had occurred during their careers: “a position under your supervision becomes vacant or is newly formed and it is your responsibility to fill this position.” Subjects were told that there were five distinct classifications for how they could fill this position. First, unless the position was entry-level, the manager could obviously promote a current member of his or her staff into the vacancy. Alternatively, the manager could hire someone not currently part of his or her staff to fill the position. For this study my participants and I differentiated hiring in four ways:

- Method 1: Hiring someone with whom you have no previous affiliation.
- Method 2: Hiring someone with whom you have a previous/current social affiliation (community friend, college friend, family etc.)
- Method 3: Hiring someone who comes recommended or referred by a work colleague based on *their* previous work affiliation.
- Method 4: Hiring someone with whom you have a past work relationship, including instances of individuals who work as temps that you later choose to offer full employment.

Along with promoting, these four methods provide the five options for how one can fill a vacant position; participants did not disagree with this classification system. All subjects were also asked to put a percentage figure on how often they used each method, and what they saw as drawbacks and benefits to each. Based on these and other questions regarding hiring and promoting, I came to an understanding of the dynamic between personal networks and occupation that speaks to notions of social capital.

## ***METHOD BY METHOD FINDINGS AND ANALYSIS***

I should now take some space to share some of the raw data and anecdotes shared with me by my participants. Method by method we can examine how often managers use each approach and why, differentiating for levels of seniority, analyzing the responses as we go. In fact for senior managers and very senior managers, I asked respondents to think about how they applied methods differently depending on the level of seniority for the hiring person. Responses for each method maintain consistency with responses for the other methods, overall forming a general hiring dynamic that we shall build toward as we explore each.

## ***PROMOTION***

Research abounds on how jobs are filled through extensive external searches or job-hunts by unemployed workers or recent graduates at various levels of education. Unfortunately, this focus overlooks the prominent application of internal promotion as a means to match workers and jobs. A look at the promotion method to fill vacant positions is an excellent starting point, as the responses of managers at all levels reveal ideas held consistently that apply to all five methods of filling vacancies.

Excluding the cases of entry-level employees, for which no prior employment in the company is typical, (100%) of the subjects cited promotion as the best way to fill a vacant position in the majority of circumstances. Such a response rate is a red flag: managers would rather not hire at all; they would just assume fill jobs by promotion from within. Why such an adversity to hiring and a pension for promoting? Recall the following facts throughout this paper. Lou Adler conducted an interesting survey of 3,000 randomly selected managers. Of his

participants, 95% admitted to making bad hiring decisions but 95% indicated that hiring is either the number one or two most important aspect of their personal success. At the same time, 95% admit they don't like the hiring process and "just about everybody" believed that the interviewing process is not very accurate (1998, pg. 6). Managers admit that finding the right people is key if not the most important factor to business success, but knowing enough about any pool of candidates to select the "right person" is easier said than done. For this reason, managers would prefer to promote someone from within when possible.

My participants were not unconditional endorsers of the Promotion method, but overall approved of it for characteristics that also influence their attitudes toward all four hiring methods. In his treatise on *How to Hire the Right Person*, Denis L. Cauvier shares his personal experience regarding the pros and cons of several different methods of job placement. The benefits to promoting one's own staff are that an individual is already well known, it continues a promote from within policy that can be morale boosting to all employees, the individual already has a knowledge of the company, and such a move saves money from recruiting costs. The drawbacks of this method are that promoting from within offers a limited supply choice of candidates who lack recent outside experience (Cauvier 1993, pg. 38). Almost without deviation, my participants, at all levels, offered the same interpretation of the use of promoting.

To understand this preference toward promoting, we should perhaps step back and take a look at what hiring managers said they look for in *any* candidate for a position. Consistently, in fact, 100% of the time, managers noted that for any candidate to be considered for a position, the candidate must have a certain skill set of abilities necessary to fulfill the duties of the job. In some cases this skill set is very specific and objectively testable; for example, knowledge of SEC law or the ability to program in a specific computing language. In other cases, and more

frequently in higher positions, the necessary skills were more subjectively testable, such as “the ability to lead a team toward a common goal” or “strong communication skills”. Either way, all managers agreed that an assessment of these skills is crucial in determining a *final pool of candidates*. Managers at all levels agreed that beyond skill-set, a certain quality, often referred to as “organizational fit” was the key to selecting the final candidate for approval from the pool. Organizational fit included such abstract qualities as “personable nature”, “strong work ethic”, “ability to work with the other members of the team at a peer, subordinate, and superior level”, or “comfort working in a fast-paced massive company”. A match of skills and fit were key to finding the candidate with “overall total effectiveness” as one very senior manager put it.

The ease of and preference for promoting is apparent in that the ability to assess both the skills and fit of a person already working under one’s supervision is instantaneous as no doubt any manager is constantly considering an assessing those under him. Lou Alder argues that performance predictions for the promotion of an internal person are about 80% to 90% accurate whereas accuracy for an external hire runs between 55 and 70% (1998). Moreover, candidates often expressed the morale building effect of using promotion. I often asked my participants to tell me of the last time they had promoted someone. The response of one advertising manager is typical. She explained that a subordinate employee had exhibited multiple years of strong work ethic while demonstrating both fit and skills in her previous position. This employee had expressed to her boss that she sought promotion when available and was ready to handle greater responsibilities. The advertising manager, in consultation with her own boss, a more senior manager, decided to offer the subordinate employee promotion when an increased workload created the need for a new supervisor-level position. The manager who I spoke with added that she saw this promotion as a way to “help someone along” who had “earned” the promotion, and

she added that offering the promotion, rather than hiring a new person for the job demonstrated to her other subordinate employees that there is a tangible payoff to a strong work ethic.

The argument for promotion as related by my participants can guide our assessment of the four hiring methods. We see for the hiring manager the importance of gathering information about a potential employee in a position. A manager wants to find a person who will be effective in her new role. Promotion offers a clear path to choose from among candidates for whom the hiring manager already has a great deal of knowledge, limiting the potential for costly error. Candidates did share thoughts on two drawbacks to promoting that will also be reflected in their assessment of the four hiring methods; first they noted that the use of promoting limited the pool of candidates and did not bring “fresh blood” into the organization. Second, they noted that it is easy to become “used to” or “comfortable with” someone you are familiar with, and to offer them promotion even though you know they might not be the best person for the job.

#### *METHOD ONE: No previous affiliation hire*

To answer the issues of “fresh blood”, one might immediately think to use a standard hiring procedure, such as placing an ad in the paper (or now perhaps on a web search engine for jobs), and field a list of applicants; such a method is widely used in many industries. Yet, respondents lamented their use of Method 1 as generally the most frequently used method but the worst method overall in its ability to place the right candidate. Of my general respondents, the median response for use of method one was 41% of all hires, however this number is significantly shifted upward to 53% if the three senior most managers and the public relations chief are removed (this removal is justified and will be explained). Nevertheless, every respondent saw major drawbacks to using Method 1 despite its frequent use.

Hiring a new person is not something done cheaply and a bad hire is not easily replaced at low cost. Built into each hiring decision are the costs related to human resources staff, operational costs, overhead devoted to hiring, orientation costs for the new hire, training costs and salary during training, and costs regarding performance reviews after the hire (Cauvier 1993, pg. xvi). My respondents alluded to these costs, as well as the costs of establishing benefits packages for workers when hired. Because of these costs, there is a strong incentive to get a hire right on the first try. Moreover, in a competitive market place, there are serious costs associated with the time spent with a position filled by a sub-par candidate that can hurt the businesses performance against competitors. In the meantime, poor work is being produced that could lead to losing clients, repairing damage and rebuilding morale within the organization (1993, pg xix.).

My subjects confirmed the importance of these costs noting that they often applied doubly as hiring through method one is prone to mistakes which means a fire and rehire will eventually take place. Both a manager and a senior manager independently explained that they make the “wrong choice” using Method 1 about 50% of the time. Managers at all three levels, and human resources staff explained that despite one’s best efforts to learn about a candidate, very often, once hired, a new employee turns out to be very different in some way from the impressions gathered in an interview. Managers who often believed that a resume could confirm presences of “skills” used the interview to assess “fit” within the organization. But several suggested that an interview truly tells you nothing because a candidate can intentionally mislead the hiring manager, or the hiring manager may come to a bad impression of a candidate based on superfluous qualities who would otherwise be highly effective in the new position.

Hiring candidates with no previous affiliation can occur in a variety of ways. Candidates might be found via newspaper ads or college based recruiting, or in other cases are the results of

searches by private employment agencies and executive search firms. Because of the company's size and international locations, another way of Method 1 hiring at Financial America is posting positions internally on the corporate intranet and fielding only current employees. Because the hirer and candidate may be vastly separated with no real connection other than presence at the same company, this internal posting is often a "no previous affiliation" hire. Cauvier notes the benefits of executive search firms and private employment agencies as being the possibility of a lower cost for a search, and access to larger networks (1993, pg. 40). My candidates disagreed somewhat with this assessment. Several executives explained that in their most recent hire, they needed the use of an executive search firm to find someone with the appropriate skills and management experience for a particular job opening. These firms, one very senior manager explained can charge up to 33% of the new hire's first year compensation for a successful placement. The drawback here is cost. In their favor, executives note that these search firms or "head hunters" present a time-saving screened list of candidates who are all skill-wise qualified for the job, leaving it to Financial America executives to assess fit. The other drawback, paralleling that of promotions, is that some executives feel that headhunters tend to draw from the same pool of applicants, limiting the potential breadth of candidates.

In contrast, when hiring based on advertisement responses, the one benefit is that one may receive a large pool of candidates with a variety of qualities. The drawback however is that more work must be done to field all the applications and verify that resumes are accurate (Cauvier pg. 42). This however was not the drawback mentioned by most managers of *Financial America* who often had the benefit of a large human resources department to give applications an

initial screening<sup>2</sup>. Rather, all managers lamented that in any situation of assessing potential candidates with whom they have no previous affiliation, it was a struggle if not impossible battle to gather the desired information about the candidate's fit. A communications manager noted that often references could not be trusted. She specifically cited America's lawsuit-culture as the reason. This manager explained that with increasing frequency, ex-employees are suing their past employers for giving poor references; now employers are afraid to relate anything but the positive about their past employees. This manager's assessment is backed up by other research that finds this to be an increasing phenomenon (Cauvier 1993, pg. 79). At all levels managers wanted to know more about a "blind-recruit" or headhunted applicant than what could be assessed without already knowing the person.

The importance managers expressed with knowing more about candidates *increased with seniority*, that is, very senior managers noted that when hiring senior managers, method one was substantially less effective than it would be for entry-level workers. Human resources managers agreed that for lower level jobs of a technical nature, method one was often adequate (though not perfect) whereas for "first line vice president positions" and all higher senior managers and executives, when promotion cannot be used, the most appropriate methods are 3 and 4, not Method 1 unless conducted through a very reputable headhunter. However, at all levels, managers were dismayed with the use of Method 1 for its general inaccuracy and lack of information despite often rounds and rounds of interviews with candidates. Adler warns that most managers interview the wrong way. They rely on misleading information such as first impressions that can hide a candidate's potential failures or mask their abilities (1998 pgs. 59-93).

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<sup>2</sup> The exception, not surprisingly is in the responses of human resources managers who themselves oversee such costs – see method three for a larger explanation.

Simply, in an interview with an unknown candidate, there is a lot of information lacking that would be available for a hire using methods 2, 3, or 4, or an internal promotion.

In contrast to Method 1, Methods 2, 3, and 4 all share the common factor that there is an existing affiliation or link between the hired person and the hirer bringing with it an extra level of information about the candidates. Some work has already studied the implications of such ties. Granovetter notes that various studies, including his own, demonstrate that those hired by personal affiliations are less likely to quit than other hires (194 pg. 147). Moreover work by Fernandez notes that firms save financially by hiring through referrals (1997 and 2000). As we shall see however, Methods 2, 3, and 4 all offer different advantages and disadvantages that result in different favorability among managers. However, Method 4, being the most akin to promotion is by far the most strongly favored hiring method.

#### *METHOD TWO: Social Affiliation Hire*

If any result surprised me, it is that eleven of fifteen (73%) of all respondents said that never over their entire careers had they hired someone with whom they had a previous social affiliation, such as an old friendship, membership in a fraternal or non-work-related organization, or familial tie. The four users of Method 2 averaged a 7% use of this method, and no more than 10%. This is the *only* result in this study of which I am totally suspect, because it seems to defy stereotypes and commonsense. First, I believe there is a built in bias for managers to act as if they never use this method because it is looked down upon as inappropriate in today's corporate culture. Second, I believe managers may not have made the appropriate distinction between whether a social affiliation was the primary reason for hiring or just happenstance, of which, by the wording of my question, both counted as application of Method 2. In a large financial

services company which relies on employee trust and performance we can imagine why managers would not want others to believe that any hiring relied on a social connection as its primary motivation. At the same time, I suspect some more social hiring must go on than is revealed by this data.

Under what circumstances were social affiliates hired? All who had used this method explained that it was only appropriate for very entry-level jobs such as support staff or seasonal interns. In fact most social affiliation hires seemed to be the placement of interns with whom a *co-worker* had a social affiliation (i.e., hiring a co-worker's child who is interested in one's own field)<sup>3</sup>. One very senior manager explained the ability of senior and very senior managers to field applications from social affiliates and "send them along" to department heads to be independently assessed for hire; however, no other senior managers mentioned this practice. Whether this "sending along" increases the chance of the candidate's being hired was not a focus here, nor could it be determined by these interviews. Again, even for this very senior manager, applications of social affiliates "sent along" were only for entry-level positions. Other managers were reluctant to use this method. Participants at all levels explained that the industry is competitive and mistakes can damage one's own career. The demonstration of certain skill sets (broadly defined) completely trumps the desire to use any social affiliation in hiring. Namely, managers felt somewhat responsible for the performance of their hires. Managers expressed concern about their responsibility should a social affiliate hire perform poorly, and few thought the risk outweighed any benefits associated with knowing a person well in a social context.

Only one person in this study strongly supported the use of Method 2 as a means to fill positions. In this case, the hiring manager was in charge of a group of writers and editors

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<sup>3</sup> Although a *co-worker's* social affiliation with a candidate was not part of my initial criteria for Method 2, I later accepted this as "Method 2" based on discussions with the participants.

responsible for several areas of written communication. Why did this manager support method 2? In his own words, he explained “lots of people can physically write, but the real difference is in how they think and analyze, and in how their head works – you get a sense of that through social knowledge of someone.” As we will see in Methods 3 and 4, this manager sees Method 2 as a way to learn more about a candidate’s “fit”. Despite his praise for this method, the manager noted that he only used it in actual hires about 5% of the time. He explained, “it is rare that a person that you know in the right way happens to fit the particular job that you’re hiring for.” This response is consistent with another finding that managers like to hire people they know in some way, but that they are often constrained by the size of their personal network.

What about Financial America might lead to this low application of Method 2, though we assume it is perhaps used more in other companies or industries? Granovetter argues “that strong ties, and ties of kinship and social (rather than work-related) origin were more likely to be used by job seekers who are unemployed or in great need of a new job” (1995, pg. 148). Taking Granovetter’s argument as true, we have an immediate explanation for why Method 2 was so infrequently used at Financial America. When I asked participants what they looked for in a job candidate, they consistently mentioned previous work experience, including a progression of advancement to their *current employment* for all but the lowest level of jobs. Participants also mentioned that because of the company’s size and prominence, they could not often, if ever, hire inexperienced individuals. It seems that overall, Financial America is in a position by which it can high workers who are already happily employed but looking for advancement, perhaps at a larger more globally diversified company, and can ignore those desperate for a job.

An organizational restraint also applies to Method 2 at Financial America. A knowledgeable HR executive who in part determines such policies noted that company nepotism

rules prevent any manager from hiring his or her own family relatives for positions under his own supervision. This rule, which we can speculate exists at many other large institutions, immediately reduces the pool of possible candidates that could be hired using Method 2. We could speculate that at another sort of institution, for instance, small businesses that serve a local market, or manufacturing firms, we might find the use of Method 2 to hire family members strikingly more prominent; indeed common sense dictates this is so.

### *METHOD THREE: Referrals and recommendations hires*

Unlike Method Two, managers at all levels were not shy about the use of hiring those who come recommended by a colleague or referred by a co-worker *based on the their past working relationship*. On average, respondents used this method 19% of the time, noting chiefly that the only disadvantage to the more favorable Method 4 (among the four hiring choices) was that a colleague's assessment, while often trusted, was never as good as one's own assessment of previous work affiliates. At this point an important distinction should be made. The information thus far has included hiring practices at the corporate headquarters of Financial America based on managers' experiences hiring for their own teams. However, Financial America has a vast network of employees and branches across the country. Various officers of human resources set the guidelines by which these tens of thousands of employees are hired. Two field recruiting executives I spoke with explained that Financial America is unique in its hiring of field salespeople – they only use Method 3 in recruiting their massive network of salespeople, though they will occasionally field applications sent in via Method 1. Namely, Financial America does not use any ads, job fairs or campus recruiting in finding its sales force. Instead, it asks its current salespeople to refer other individuals who are “actively involved in sales” and who are

“well established people in their community”. These recruiting executives noted that employee retention using this method is better than using previous methods, and that of course recruiting costs are reduced<sup>4</sup>.

Good research has been conducted that buttresses the claims of these recruiting executives on the benefits of hiring based on Method 3, which might explain managers preference to this over Method 1 or 2, and the general policy toward using this method for field-hires. Work by Roberto M. Fernandez et. al. (1997 and 2000) demonstrates the cost benefits to hiring based on employee referrals. Fernandez’s studies are especially applicable here because they involve an examination of hiring at a large retail bank. Studying hiring for a number of client oriented positions, he found that 30% of referred applicants get hired vs. only 3% of applicants with no referrals (1997 pg. 892). The difference he notes is based on referral applicants being overall “more-appropriate” for the opening because of information they have from their connection to an existing worker at the bank. Fernandez also notes that hiring through referrals eliminates several of the costs associated with Method 1 hiring. He demonstrates that in the call receiving center for a large retail bank, the bank can make a 250% “return on the firm’s \$250 incremental outlay” in the form of the referral bonus (2000 pg. 1348). The use of paying the referee a referral bonus is common practice. The use of referrals and the payment of these bonuses can help with employee retention because sometimes the referee will feel an obligation to encourage the referred candidate to stay at his or her new job, or the referred and now hired person will feel an obligation to remain on the job so that the referee can collect a form of differed referral bonus based on the referred person’s retention (Chambers 2001 pgs. 62-65).

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<sup>4</sup> Naturally, issues of recruiting cost are more strongly monitored by members of HR who actually oversee such cost.

#### *METHOD FOUR: Personal work-affiliation hires*

As I found consistently, managers at all levels said they would strongly prefer to hire using Method 4; namely, it is the most like promotion in its ability to give the hiring manager information about the potential candidate. However, many mentioned that the ability to use this method was constrained by the number of people one knew in the industry. Therefore, it is not surprising that use of Method 4 seemed to be directly proportional to one's ranking in the corporate hierarchy. Isolating the four senior most people I spoke with, in no particular order, they used method 4, 60%, 40%, 50%, and 50% of the time when hiring, an average of 50% of the time. The average for the other respondents was a much lower 24%, with only one person nearing the rates of the senior managers; this person, a chief of public relations, noted that networking was key to his field<sup>5</sup>. Each of these rates was higher than any other reported by my subjects. To get a small understanding of the size of these individuals' networks, it is helpful to know that in their *current* positions, each of these executives has at least 1,000 people under their senior management, and at most 100,000. Each reported vast experience hiring such as "hundreds of time" or "for thirty years". Naturally, each of these people in very senior positions has a large network upon which to draw for hires because they have the ability to "hire back" someone who once worked for them but shifted companies, or the ability to hire from their previous places of employment.

When hiring one's own former staff, there are again the benefits that an individual is known and that it saves on recruiting costs. Cauvier warns however that this limits one's choices and that one might have unique difficulties with former colleagues (1993, pg 38). Managers at all levels expressed these same concerns, as they had for promotion as a method. They also

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<sup>5</sup> These figures exclude the responses of people in Human Resources who employed different methods for hires.

added that, as with promotion, there was the risk of hiring someone one was “used-to” or “comfortable with” rather than searching for the “best talent”.

How do Method 4 hires work exactly? Again, in asking my participants to explain the most recent use of a Method 4 hire, I am able to select an array of examples typical of respondents’ responses. One telling anecdote came from a very senior financial manager who explained his relationship with his most recent hire: “I worked with them at *Big Bank Corp* previously, they had worked for me and I had worked for them – we shifted around over jobs. He was having a rough time there, was unhappy, so I called him and asked him if was interested in moving here; he was, so we hired him.” Note what this manager did; although he knew his colleague from Big Bank was effective for the job, one of the motivations for hiring him was that he was unhappy at his previous job – this executive wanted to help out what we might call his “friend” at the other company. I believe, and will return to this topic, that perhaps a subset of Method 4 hires could be considered Method 2 hires also, as many executives are concurrently “work colleagues” and “friends”. The public relations manager had used a similar technique indicative of Method 4 hires. He explained “we were going to use a recruiter for a PR manager position that opened, but during a meeting of the *Public Relations Society of America*, a woman who I had worked with at a previous job came up to see me and she was still working in PR. I asked her to come to Financial America; through that contact I offered her the job . . . the advantages are that I know she’s capable of the work, the position offered her growth and I didn’t have to pay a recruiter fee.” Again, in this case, the PR manager already knew of his colleagues abilities, but one reason he cited was that he was able to offer his previous co-worker an opportunity for growth. Recall that this was often cited as a motivation in the promotions category. Managers clearly see the job placement process as a way to help-out their affiliates.

## ***TOWARD A HIRING DYNAMIC AND CONCLUSIONS***

In a competitive industry such as this, and with the hierarchical structure of the organization, what is important for everyone involved in job placement is finding someone who will be effective in his or her new role. All managers, including the CEO, answer to someone at a higher level, so no one can afford to take unjustified risks when hiring that might jeopardize their career. So those seeking jobs at, for instance, a very-large financial services industry, can use our new understanding of the methodology of hiring managers to make themselves the most marketable candidates. After having arrived at this conclusion on my own, I discovered Granovetter too had already realized that “At the broadest level, changes in the way employing organizations view the future attachment of workers shape what strategies and actions will be effective in finding jobs (1995 pg. 155). That is, an understanding of the processes by which managers make hiring choices, reveals, for any industry, not only how staff are hired, but how those in high positions are able to rise to those places.

Our understandings suggest that for all workers in this field, building a network among colleagues in the same industry is important, not developing so-called “country club” networks of social affiliates. It also helps to have colleagues not just within the broad industry (financial services) but also within one’s particular function (PR people having PR connections, insurance people having insurance connections, lawyers having legal connections). Demonstrating oneself in their present position is another key advantage, as managers seem anxious to promote or to hire external candidates whose resumes track a progression of advancement. If anything, a solely social connection has the minimal potential of getting your foot in the door at the bottom rung, but will be largely unsuccessful at securing one a mid or high-level position in which hiring managers are primarily concerned with skills and fit. While recent educational

achievement may part of this skills assessment, at any level but entry-level, it is seen as largely unimportant when compared to recent work experience and advancement.

We have noted all managers strong preferences for promoting or hiring using Method 4, suggesting that the best advantage is to already know people and be employed in the field you wish to advance in. This argument is buttressed by the finding that managers like the idea of helping others they already know<sup>6</sup>. There are of course several key implications to managers' preferences toward this method. First, it is a clear advantage to already be somehow established. Consider the advantage one has in having an existing network of affiliates because of the potential to be hired by one of them based on a past work relationship. The use of this method has an ironically contrasting advantage and disadvantage from a socially progressive point of view. The disadvantage is that this method should tend to help those already established become more so. We can assume that if not still today, at least 20 years ago, jobs in the financial services industry were largely occupied by white males in all but entry-level, clerical and support staff positions. Because of this, one's network is more likely to already be populated by white males, so in drawing on one's network, one is likely to hire white males. However, all respondents emphasized that in their use of Method 4 there focus was both skills and fit. No one suggested that in any way an aspect of "fit" related to gender or race, though we cannot be sure if it does either way without further study. However if we assume that Method 4 is blind to race or gender but rather only the success of *past work relationships*, as more women and minorities "get their foot in the door", most likely through Method 1 hiring, they too will become increasingly privy to hiring by Method 3 or 4 as they develop working relationships with established managers. These findings often suggest that affirmative action might be necessary to

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<sup>6</sup> Of course, a vast amount of research and theory exists to demonstrate the differences in how people tend to treat those they know and those with whom they have no previous affiliation.

help minority or women gain entry in such industries beyond the entry-level, but that the need for such programs can dwindle as these employees become exposed to their own networks of work-relationships that make them candidates for Method 3 and 4 hires, or promotion.

If this work is to continue in the tradition of Granovetter's original study, I must assess key disparity present between what he saw in 1974 as a high use of weak social connections leading workers to their preset jobs and my finding that hiring managers rarely hire those who are socially affiliated to themselves. Again, I was surprised and somewhat in disbelief of the low proportion of Method 2 usage, and this led me to question the possible presence of a broader trend – American's finding their social connections through the workplace, blurring the distinction between "friends" and "colleagues". It remains unclear how my subjects differentiate if at all for "friends at work" vs. simply "friends"; recall the example of the very senior manager who hired his colleague from Big Bank. If business colleagues become the bulk of one's social network (as Americans spend more and more time at work), is there anymore a difference between one's social network (excluding the obvious family link) and one's professional network? An advantage in one's job marketability may be increasingly simply to "know people" and have a casual connection to them through the workplace.

As we shift from a nation of small businesses to a nation of mega-companies, how will the national hiring dynamic change in ways that accord with hiring for large corporations? I suspect we will find that establishment of a network of "weak ties" through *work-based friendships* of increasing importance as this shift develops. Granovetter is able to cite numerous studies that show hiring using Method 2 based on familial kinship lines; in addition to family owned businesses, these hires typically occur in heavy industries where the "lads of dads" are hired into such work as steel factories (1995 pg. 156). But as this type of hiring becomes less

frequent in the United States, it may be increasingly important to demonstrate one's skills as quickly as possible in a series of internship or entry-level positions where one can find such a network of managers who have hiring powers.

*In Summary:* In a competitive industry such as a globally exposed financial services firm, managers must find the best possible people for any position. To do this, their one and only focus is on gathering the information necessary to determine what candidate will be "effective" in the job. At all levels, managers saw a previous or present working relationship as a key way to gather such information, leading them to favor promotion or hiring of those they had previously worked with. After this, the recommendation or referral of a colleague who understands the demands of the position and the abilities of a candidate is effective. Social affiliations are mostly deemed too risky in this large corporate setting. While offering the widest pool of candidates, all managers see the hiring of someone with no previous affiliation (Method 1) as risky because assessing information about the candidate is difficult, a typical case in the economics of asymmetric information. If managers differ in any way based on their level of seniority, it is both in their ability and need to use Methods 3 or 4 over Method 1. With more seniority and time in the industry, one is able to develop a larger network of colleagues by which to consider candidates for hire. At the same time, very senior managers and human resources staff deem that it is *more essential* for a valid assessment of the type of information available in a Method 3 or 4 hire regarding the hiring of other managers or senior managers versus the hiring of support staff or those in jobs of a technical nature that require a specialty skill set. Overall, we see strong support for the need of a new adage: "It's not who you know, but who knows what you know."

## Works Cited

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