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Social Network Effects

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BY LAURA W. GELLER

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YOUNG
PROFS

Job seekers are keenly aware that who they know matters. A friend at a prospective employer can push a resume to the top of the pile, put in a good word, or arrange an introductory lunch. Companies, for their part, are happy to oblige. Employee referrals help them cut through the noise, target searches, and save money.

Social networks play a positive role in the hiring process. But what can these useful connections tell us about performance on the job? Does the advantage of knowing someone carry over once an individual joins a firm? Adina Sterling has been asking these questions since transitioning from engineer to academic nearly a decade ago. Sterling had spent five years with Procter & Gamble's global baby care and beauty care R&D teams before leaving to pursue a Ph.D. in organization and management. She joined the faculty of Stanford University's Graduate School of Business as an assistant professor in the fall of 2015.

Sterling has found that the effects of people's social networks on their own career and on their organization are just as disparate as the

networks themselves. As she explained to *s+b* in January 2016, knowing someone at a new job can help people quickly develop a strong network, and it can help some people get promoted. Having personal connections can also make candidates less likely to shop around a job offer, and perhaps even less likely to turn it down.

But in fields that have quantifiable measures of people's "quality" (class rank, prestigious appointments, sales data, and so on), the positive effects of knowing someone can disappear for those not considered top performers. And companies can put diversity at risk by relying too heavily on the Rolodexes of their current staff.

S+B: You research social networks, in the traditional sense.

STERLING: Everyone has a social network. You can think of it as the people that you know, your interactions with those individuals in terms of frequency and duration, and the way those people are connected to one another. Sometimes we conflate social networks and social media. Social media allows us to keep up with the people in our networks in more efficient ways.

In graduate school, as I was exposed to research on social networks, I began to wonder about their importance. I noticed there was a lot in the literature about the value of networks for finding jobs, but not much about the impact these networks have after people enter organizations.

For example, I worked at Procter & Gamble as an engineer for five years prior to graduate school. I ended up with a great network, and I

wasn't sure how — I'm not a particularly gregarious person. I didn't think that much about it at the time, but I knew that having this network was very beneficial to me in terms of my career progression at the company. Later, I was able to trace my network back to the very first person I met in the interview process for an internship when I was 18.

S+B: How are companies using social networks to find talent?

STERLING: One of the main ways companies are using social networks in their recruiting efforts is the same way they have for decades: They encourage their employees to refer people who they know and think are qualified for positions.

However, a variety of factors have made social networks increasingly important. For one, firms have had to become more creative about how they search for and attract top talent because of the sheer number of applicants. A few decades ago, recruiters could list a job in a newspaper and get a few dozen responses. Today a job can be posted on Monster.com, and within two hours it could have several hundred applicants.

In addition, younger workers



Adina Sterling

today expect to work for companies for shorter periods of time than older employees do. Turnover is also high in certain industries, like technology. Most industry reports cite the average tenure in tech as under three years, with the average tenure in some companies being much lower. Firms are in the position of constantly looking for talent. Of course, this is made all the more challenging by a shortage of highly skilled labor in areas such as engineering, IT, operations, marketing, and sales.

Companies have often tried to address the war for talent by offering financial incentives. That sometimes works. But even when it does, it's costly to the firm's bottom line. Plus, a company can always be outbid by a competitor. It's important to find alternative ways to recruit and retain top candidates.

S+B: How can social relationships help?

STERLING: I have found that knowing somebody in a company prior to joining — someone coming through, for instance, a referral — helps people develop more robust networks inside firms. As part of my dissertation research, I surveyed MBA students both before and after they completed internships. Those who knew somebody in the firm prior to starting formed more network connections than those who didn't start out with a connection. This may be one reason that those hired through a network connection tend to stay with a company longer.

In another study, I researched how networks can help managers deal with the strategic behavior of job seekers. It's problematic for HR managers when they've gone through a long recruiting process,

vetted someone, and made an offer, and then that applicant shops it around, trying to increase their salary from competing firms without any intention of accepting the original offer.

I focused specifically on friendships between applicants and employees. I found through qualitative interviews that managers believed candidates with friends in the firm were less likely to shop the offer around and use it for leverage, because it would reflect poorly on their friend. In a follow-up experiment, I confirmed their suspicion: People are less likely to hold on to offers that they don't intend to keep if their friends work at the company.

S+B: Besides expanding their networks more organically, are there other advantages for employees of being hired through social networks?

STERLING: In a forthcoming study, Jennifer Merluzzi of Tulane and I looked at the effect of networks on upward mobility or promotions. We analyzed data from a large, private employer on over 15,000 employees and their post-hire promotion outcomes over an 11-year period. We've found that for African-American employees, those who came in as referrals had more promotions than those who did not.

We're still exploring the potential mechanisms behind this finding. That initial network might provide greater access to new relationships within the company or additional resources that enable mobility. It could also be that when someone comes into a company and has been vouched for through the referral process, it alleviates concerns about how that person is going to perform. To the degree that research (for example, in a pa-

per published by MIT's Emilio Castillo in 2008) has shown that African-Americans might not receive the same promotion opportunities as majority members in organizations, having that referral may provide a sort of stamp of quality. Lastly, it could be that those with referrals are just better on some unobserved dimension than others. We cannot assume or rule out any of these possibilities with our current data, but it's a fascinating subject for future research.

S+B: Are there any disadvantages to relying on social networks?

STERLING: Oftentimes the networks we have are due to things outside our control: the family we are born into, where we went to school, and so on. And then there are those who feel uncomfortable actively trying to expand their connections. Some people may end up without a strong network for these reasons, and find themselves at a disadvantage.

But interestingly, I also found that even the people who'd prefer to skip happy hour can still see their network grow. It depends largely on their field. For example, as I've mentioned, I found that for MBA students — who don't reveal their grades to recruiters — coming in and knowing somebody affects how large their network becomes.

Law school students, however, have clear signals of quality — for example, class rank or serving on prestigious law reviews. For lawyers, I found that having a pre-entry contact didn't have a direct effect on the networks they were able to form once they started. Having that contact mattered to their network development only if they were known to be "good" coming in — in this

study, being good was defined as being in the top 20 percent of their law school class. If they lacked this signal, it appears the people they knew prior to starting were less willing to help them establish connections within the company.

For companies, meanwhile, using networks to hire — whether it's using a referral program in the traditional sense or using social media to cull contacts from current employees — can have a potentially serious drawback. Our networks tend to connect us to people who are “like us” on intellectual and social dimensions. It's possible that employers can over-recruit through their employees' networks, leading to a lack of intellectual diversity or diversity on other bases. And of course this is problematic, because having different perspectives is critical for creative problem solving, innovation, and resisting a group-think mentality.

S+B: Can companies tap into some of the advantages of using networks while avoiding the pitfalls?

STERLING: This question is motivating a new set of projects I'm working on about so-called trial employment. Generally we can think of a trial as a tryout period, through which a firm gets a first look at somebody prior to hiring him or her full-time; I'm specifically studying internships. In one study, I'm using personnel records from a large employer to investigate employee performance, comparing those hired through an internship, a referral, or a traditional, more formal method. It appears that those hired through

internships perform better on key metrics such as retention and promotions. I am not able to show with my current data that the trial experience itself causally affects performance. But just the existence of a correlation is important.

Why is that the case? Companies assume that networks matter to hiring because they provide richer channels of information to the employer about an applicant. If tryouts also perform this function, companies can recruit people with greater levels of known information without going through employee networks. Although my research stops short of proving implications for diversity, I believe that it could show some differences versus network recruiting. And in fact I'm working on projects with this hypothesis in mind right now.

Tryouts hold potential benefits for employees as well. For example, consider parents of young children who exited the workforce for a few years. Their professional network has likely atrophied during their time away, and they're probably not going to get the same employment opportunities that they would have with a robust network. If a company were to offer a tryout to these prospective employees, it could help them get back into the workforce more quickly. And companies might find a new, largely untapped source of talent. +

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