In Hiring, a Friend in Need Is a Prospect, Indeed

Sandy Huffaker for The New York Times

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Published: January 27, 2013 333 Comments

Riju Parakh wasn't even looking for a new job.   Danielle Cosgrove, left, referred Riju Parakh for a job at Ernst & Young. Ms. Parakh was hired within three weeks.

. But when a friend at Ernst & Young recommended her, Ms. Parakh's résumé was quickly separated from the thousands the firm receives every week because she was referred by a current employee, and within three weeks she was hired. "You know how long this usually takes," she said. "It was miraculous."

While whom you know has always counted in hiring, Ms. Parakh's experience underscores a fundamental shift in the job market. Big companies like Ernst & Young are increasingly using their own workers to find new hires, saving time and money but lengthening the odds for job seekers without connections, especially among the long-term unemployed.

The trend, experts say, has been amplified since the end of the recession by a tight job market and by employee networks on LinkedIn and Facebook, which can help employers find candidates more quickly and bypass reams of applications from job search sites like Monster.com.

Some, like Ernst & Young, the accounting firm, have set ambitious internal goals to increase the proportion of hirings that come from internal referrals. As a result, employee recommendations now account for 45 percent of nonentry-level placements at the firm, up from 28 percent in 2010.

The company's goal is 50 percent. Others, such as Deloitte and Enterprise Rent-A-Car, have begun offering prizes like iPads and large-screen TVs in addition to traditional cash incentives for employees who refer new hires.

Economists and other experts say the recession has severed networks for many workers, especially the long-term unemployed, whose ranks have remained high even as the economy recovers.

Nearly 4.8 million Americans have been out of work for 27 weeks or more, according to the Labor Department, three times as many as in late 2007. The typical unemployed worker has been jobless for 38 weeks, compared with 17 weeks before the recession.

While the overall unemployment rate has edged downward recently, little improvement is expected for the long-term jobless when data for December is released by the Labor Department on Friday.

“The long-term unemployed and other disadvantaged people don’t have access to the network,” said Mara Swan, executive vice president for global strategy and talent at Manpower Group, which provides temporary help and job placement services. “The more you’ve been out of the work force, the weaker your connections are.”

Although Ernst & Young looks at every résumé submitted, “a referral puts them in the express lane,” said Larry Nash, director of experienced and executive recruiting there. Indeed, as referred candidates get fast-tracked, applicants from other sources like corporate Web sites, Internet job boards and job fairs sink to the bottom of the pile.

“You’re submitting your résumé to a black hole,” said John Sullivan, a human resources consultant for large companies who teaches management at San Francisco State University. “You’re not going to find top performers at a job fair. Whether it’s fair or not, you need to have employees make referrals for you if you want to find a job.”

Among corporate recruiters, Mr. Sullivan said, random applicants from Internet job sites are sometimes referred to as “Homers,” after the lackadaisical, doughnut-eating Homer Simpson. The most desirable candidates, nicknamed “purple squirrels” because they are so elusive, usually come recommended.

“We call it Monster.ugly,” said Mr. Sullivan, referring to Monster.com. “In the H.R. world, applicants from Monster or other job boards carry a stigma.”

Monster.com did not respond to a request for comment.

Even getting in the door for an interview is becoming more difficult for those without connections. Referred candidates are twice as likely to land an interview as other applicants, according to a new study of one large company by three economists from the Federal Reserve Bank of New York. For those who make it to the interview stage, the referred candidates had a 40 percent better chance of being hired than other applicants.

For many companies, the odds are even more lopsided. At Sodexo, a food service and facilities management company that hires 4,600 managers and executives a year, referred employees are 10 times more likely to be hired than other applicants.

“We’re focusing on what will be most efficient,” said Arie Ball, Sodexo’s vice president for talent acquisition. “And it’s just easier to connect on social networks than it used to be.” The company recently released a mobile app so employees can make recommendations from their mobile phones.

In particular, LinkedIn has altered the hiring landscape, making it easy for recruiting departments to trace connections between job candidates and their own employees by using LinkedIn's database and software.

LinkedIn has also eaten into the bottom line of Monster.com and other online job sites as well as that of traditional recruiters, said Craig A. Huber, an experienced stock analyst at Huber Research Partners who covers LinkedIn and Monster.com.

Even as the rise of social media changes the landscape for job seekers, the depth of the last recession has eroded labor networks in both the white- and blue-collar worlds, said Judith K. Hellerstein, a professor of economics at the University of Maryland. Skills decline, she said, and friends become reluctant to recommend people who have been out of work for months or years.

"We're in a period of historic displacement in the labor market," Ms. Hellerstein said. "The long-term unemployed are a huge problem that we haven't figured out. All this human capital is being wasted and their skills are atrophying."

Referral programs carry important benefits for big companies. Besides avoiding hefty payouts to recruiters, referred employees are 15 percent less likely to quit, according to Giorgio Topa, one of the authors of the Federal Reserve Bank of New York study.

Human resource departments have recognized the same pattern. "Our analysis shows referred hires perform better, stay longer and are quicker to integrate into our teams," said Mr. Nash of Ernst & Young.

As a result, within the last two years, firms like Deloitte, Ernst & Young, and Booz Allen have created dedicated teams within their human resource departments to shepherd prospects through the system. Over all, Deloitte receives more than 400,000 résumés a year, but recommended employees are guided along by a 12-person team.

"We had people that felt referrals weren't being attended to or referrals weren't being contacted," said Maribeth Bailey, national director of talent acquisition at Deloitte. "We simplified the process by removing a lot of red tape." Deloitte now gets 49 percent of its experienced hires from referrals, up from 43 percent two years ago.

Ms. Swan of Manpower cautions that although employee referrals are a valuable tool, "you have to watch the ultimate long-term result in terms of diversity and skills." Otherwise, she warned, "you're going to get people like you have."

People tend to recommend people much like themselves, economists say, a phenomenon known as assortative matching. Mr. Topa's study for the Federal Reserve Bank of New York found that

63.5 percent of employees recommended candidates of the same sex, while 71.5 percent favored the same race or ethnicity.

As a result, some companies are trying to make sure the proportion of employees who are recommended doesn't get too high even as they expand their referral programs.

At Enterprise Rent-A-Car, the proportion of workers hired through employee referrals has risen from 33 percent to just under 40 percent in the last two years, but the company wants to make sure it doesn't pass the 50 percent mark, said Marie Artim, vice president for talent acquisition at Enterprise Holdings.

"I think if you begin to creep up to 50 percent or higher, you start to worry about people not getting the opportunity to talk to us," she said. "That's why we look for a balance."

A version of this article appeared in print on January 28, 2013, on page A1 of the New York edition with the headline: In Hiring, a Friend in Need Is a Prospect, Indeed.