What Do Employee Referral Programs Do?*

Guido Friebel[†] Matthias Heinz[‡] Mitchell Hoffman[§] Nick Zubanov[¶]

July 2018

Abstract

In an RCT covering all grocery store jobs at a European grocery chain, 238 stores were randomized to give information to employees or pay them different bonuses for making referrals. Larger bonuses increase referrals and decrease referral quality, though the increase in referrals is fairly modest. Still, the employee referral programs (ERPs) are highly profitable. This reflects in part that referred workers are substantially more likely to stay than non-referrals, but primarily that non-referrals have higher retention in stores treated with ERPs relative to control stores. The firm rolled out an ERP across the entire firm and increased bonuses. In the post-RCT rollout, referral rates remain low for grocery jobs, but are high for non-grocery jobs, which are perceived as much more attractive. Our results (1) are consistent with a model where referrals are driven by both monetary incentives and altruism toward friends and (2) show that ERPs can have substantial benefits beyond the people who are referred.

JEL Classifications: J24, M51, J30, J63
Keywords: Referrals; employee referral programs; hiring; turnover; productivity

PRELIMINARY.

*We thank Iwan Barankay, Nick Bloom, Roberto Fernandez, Matt Gentzkow, Matt Jackson, Eddie Lazear, Liz Lyons, Stephane Saussier, Kathryn Shaw, John Van Reenen, and numerous seminar/conference participants for helpful comments. We thank Muhammad Azim for excellent research assistance. We are grateful to the World Management Survey (WMS) and especially Daniela Scur for sharing their data with us, which we use to report on the prevalence of referral programs. Financial support from the Michael Lee-Chin Family Institute and SSHRC is gratefully acknowledged. We also thank the Stanford Institute for Economic Policy Research for its hospitality.

[†]Goethe University of Frankfurt and IZA and CEPR
[‡]University of Cologne and CEPR
[§]University of Toronto Rotman School of Management and NBER
[¶]University of Konstanz and IZA