



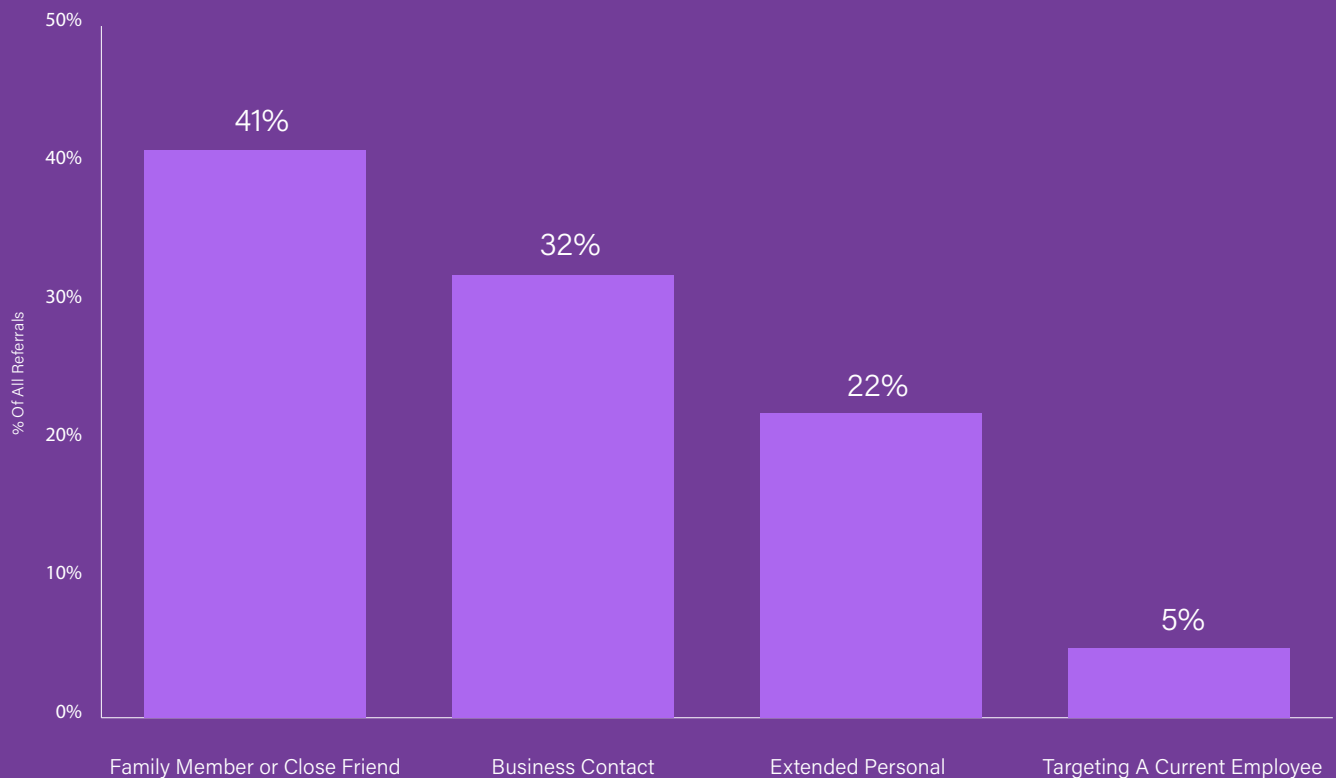
# The Impact of Job Referrals

Effects On Pay,  
Engagement, Diversity

Between April 24, 2017 and August 25, 2017, PayScale asked 53,000 workers if they had received an employee referral or were connected to an employee at the company at which they currently work. More than a third of all workers received some type of referral for their current job, and this number is [probably only going up](#). Consistent with other [research](#) our data show that over a third of employees receive referrals. But how do people get referrals and who is referring them?

The most common type of referral was from a family member or close friend (41 percent of employees who received a referral), followed by a business contact (32 percent). Leveraging extended personal networks (i.e. a friend of a friend) was less common, but was still used by 22 percent of all referred employees. Targeting current employees to seek a referral was the least common, but 5 percent of referred workers managed to work these cold connections into jobs.

### Referrals By Source



But do referrals create the kind of workforce companies are seeking? It's clear that referrals [can lead to more engaged employees](#), but the size of this effect depends on the source of the referral. Interestingly, people who leveraged cold contacts or extended personal networks into a referral have the highest engagement levels, while those referred by a family member or friend are only slightly more engaged than those who did not receive any referral.

# In Which Industries Are Referrals Most Prevalent?

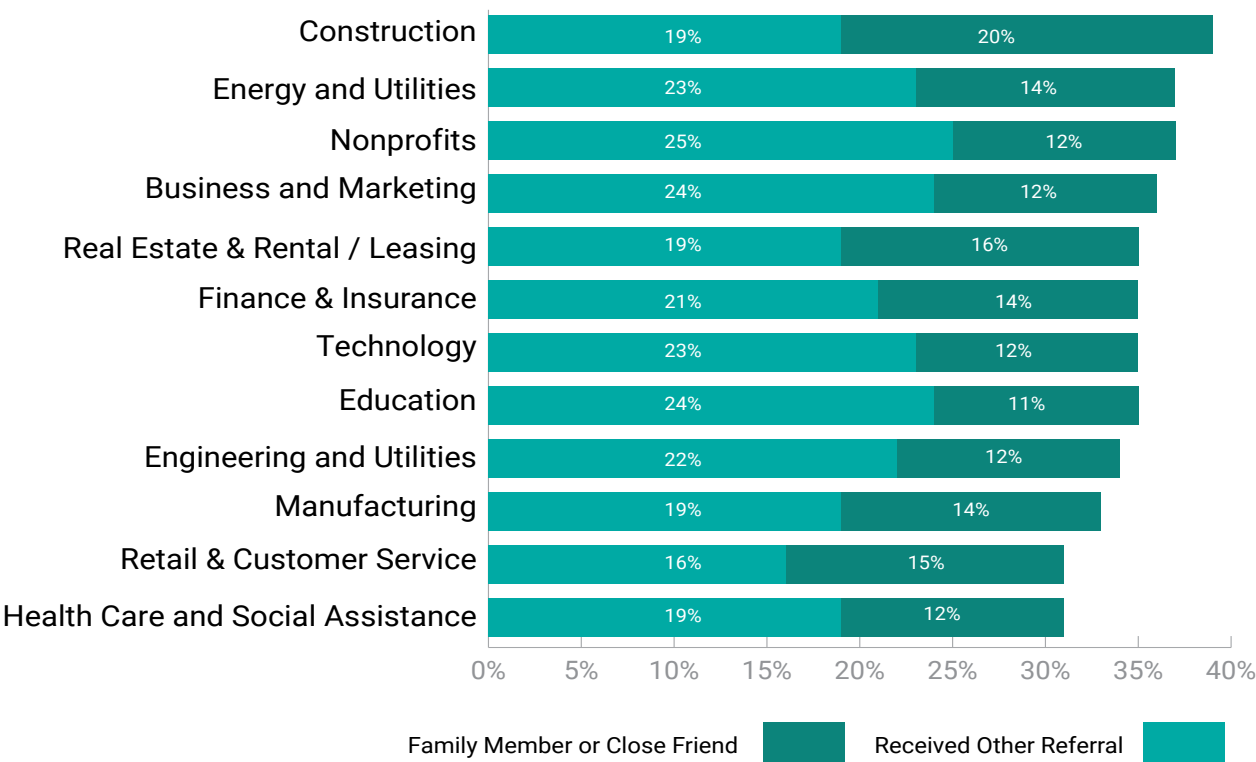
While 34 percent of employees across all industries received a referral, there are differences between industries. On the low end are the retail and customer service industry, along with health care and social assistance, with only 31 percent of workers receiving referrals.

The construction industry, on the other hand, is built on referrals. Not only is the referral rate 5 percentage points higher in the construction sector than in the economy as a whole, it is a full 2 percentage points higher than the industry with the next highest referral rate. In addition, referrals by family members or close friends are appreciably higher in construction than in any other sector.

*“Key finding: While the construction industry is built on referrals, the tech industry, contrary to popular belief, is not a referrals outlier.”*

In recent years, referrals in the tech industry has been a hot topic. Tech companies have been heavily scrutinized for relying on personal connections and referrals in hiring. However, our data show that the use of referrals in tech is in line with most other industries, falling in the middle of the pack when we look at the percentage of employees who had a referral. Referrals from business contacts as well as from extended networks appear to be slightly higher than average, but overall the tech industry does not differ greatly from the other industries we analyzed.

## Referred Employees by Industry





## Referrals Lead to Higher Levels of Engagement

Similar to other research, we find that referred employees are more engaged. They are more likely to report that they are satisfied with their employer and that they have a great relationship with their manager. They are also less likely to say that they intend to leave within six months.

A referral's impact on employee engagement, however, depends on the source. Employees who received a referral from their extended network or from targeting an employee are the most engaged workers. Unsurprisingly, people who make a concerted effort to find someone at a company to get a referral are likely those who are most excited about the company, its mission and its culture.

On the other end of the spectrum are people who received referrals from a family member or close friend. While these employees still have better engagement outcomes than those who did not receive a referral, they have notably lower levels of satisfaction with their employer and worse relationships with their managers than the other referral groups. In fact, they are equivalent to those who received a referral from a former business contact for having the highest rates of saying they intend to leave.

In short, the next time some stranger messages you on LinkedIn because they are excited about your company, maybe you shouldn't automatically hit delete!

Employee Engagement by Source of Referral

	High Employer Satisfaction	Great Manager Relationship	Does Not Intend To Leave
No Referral	51%	67%	46%
Family or Close Friend	53%	68%	47%
Business Contact	57%	71%	47%
Extended Personal Network	57%	73%	49%
Targeting A Current Employee	60%	73%	54%

## More Engaged Workers, But at What Cost?

Given that referrals lead to much better outcomes for workers and employers when it comes to employee engagement, it seems like a no-brainer that companies should try to take advantage of referrals as much as possible when hiring.

Unfortunately, there is an ugly side to referrals -- They benefit white men more than any other demographic group. Our research shows that, holding all else constant, women of any race and men of color are much less likely to receive referrals than their white male counterparts: white women are 12 percent less likely; men of color are 26 percent less likely and women of color are 35 percent less likely to receive a referral. [\(See Methodology for details.\)](#)

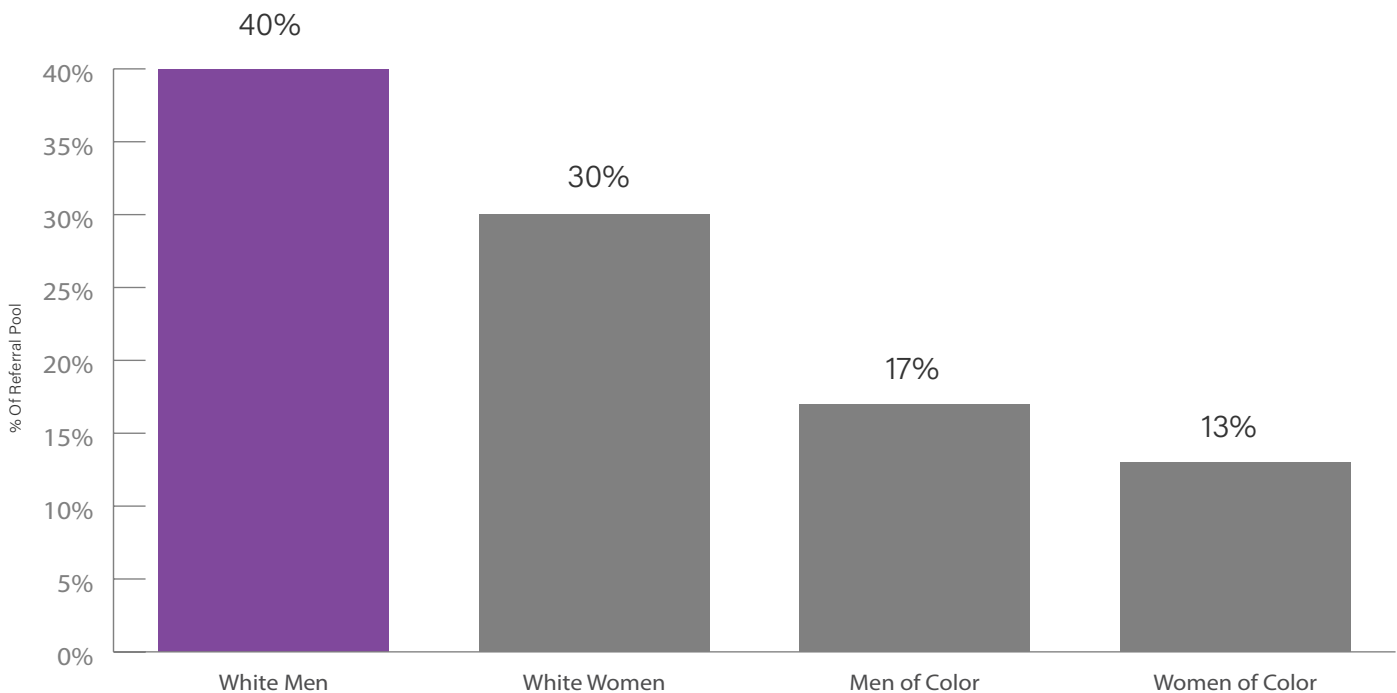
To put it another way, given the current demographic composition of the labor market, if you have 100 referred employees, 40 of them will be white men, 30 will be white women, 17 will be men of color and only 13 will be women of color, holding constant industry, location and other relevant variables. White men are only 34 percent of the U.S. labor market according to the Bureau of Labor Statistics, so the referral pool skews even more heavily towards this group. Relying on referrals will not help companies diversify their hiring pool.

There is a significant body of research that documents how and why [women](#) and [women of color](#) face more obstacles to networking than their white male counterparts. Regardless of the reasons, the fact remains that relying on referrals to fill your pipeline will generate a less diverse talent pool.

For companies to reap the benefits of both hiring through referrals and having a diverse talent pool, they need to be proactive about expanding their own networks. Attending career fairs focused on diversity and connecting to schools that have diverse student bodies are two ways to achieve this. [Having a strong social media presence can also ensure that diverse candidates know who to connect with to get a referral.](#)

### Referrals Disproportionately Benefit White Men

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# For Employees, Referrals Can Get You the Job, But Can They Get You the Big Money?

Research suggests that nearly 33 percent of all interviews come from some sort of a referral and that referrals significantly increase the likelihood of receiving a job offer. But once you've gotten your resume through the initial screen, crushed your interviews, impressed your future employer and clinched an offer, will that initial referral also impact your pay?

Averaged out across all respondents, there is no significant pay difference between those who were referred to their current jobs and those who were not. However, when we group people by the source of their referral, it becomes clear that some referrals can have a major impact on pay.

Contrary to what one might expect, friend and family referrals can have a negative impact on pay. When we control for variables such as industry, occupation, location and other factors, such referrals decrease worker's salaries by about \$1,600.

So, it seems that while “who you know” certainly impacts your chances of landing a job, a referral by someone who you know only in a personal context could have a negative impact on your earnings.

Referrals by business contacts, on the other hand, tend to increase pay by several thousand dollars holding all else constant. This makes sense since people who have worked with you in a professional context are able to vouch for your success as an employee and recommend whether you will be a good fit for the role.

But business contact referrals do not affect everyone equally. Our statistical analysis shows that a typical man can expect such a referral to lead to a \$8,200 salary increase, while a typical woman should only expect a \$3,700 salary increase. This is a 55 percent difference!

There is also a large pay increase for men who receive referrals from extended networks. They can expect to receive a \$3,200 boost in pay, all else equal. Women, on the other hand, can expect no such windfall. Our analysis shows these referrals do not have a statistically significant impact on women’s pay.

The disparate impact of referrals on the pay of men and women is troubling. But, it also potentially helps explain some of the [gender wage gap](#), especially since, as we show above, white men receive referrals at much higher rates than women.

There are both benefits and costs for referrals from an employee perspective. While referrals may help job seekers land a job, we found that they may, in fact, have a detrimental impact on their take-home pay.

Additionally, referrals are not a total win for companies either. For instance, minorities and women are much less likely to receive referrals. Consequently, relying on employee referrals may have the unintended consequence of creating less diverse work environments.

	Men	Women
Family Member or Close Friend	(\$1,600)	(\$1,600)
Business Contact	\$8,200	\$3,700
Extended Personal Network	\$3,200	\$3,200
Targeting Current Employee	\$0	\$0





## Methodology

From April 24, 2017 to August 25, 2017, PayScale collected data to determine if people received an employee referral (answered by 53,200 respondents). Respondents also provided demographic information and details on their current position. Since respondents are not required to answer to advance in the survey, the number of responses vary depending on how we cross-cut the data.

## Statistical Methodology

To assess how demographic characteristics impact the likelihood of receiving a referral, we ran a logistic regression with the probability of receiving a referral as the dependent variable and demographic, industry and location variables (as well as others) as the independent variables. All results reported are statistically significant. The analysis was conducted using 5,616 observations.

# Definitions

Referral Type: Did you receive a referral from or get connected to a current employee when you applied?

- Yes, by a family member or close friend
- Yes, through my extended personal network (a friend of friends, etc.)
- Yes, by a classmate
- Yes, by a former coworker/colleague/client
- Yes, by targeting a current employee (by LinkedIn, alumni network, etc.)
- No
- Other

# Engagement Variables

The percentages here are those selecting 4 or 5 on a five-point Likert scale (from 1 – Strongly Disagree to 5 – Strongly Agree) for the following prompts:

**Satisfied with employer:** “I am extremely satisfied working for my employer.”

**Great relationship with manager:** “I have a great relationship with my direct manager.”

**Intends to leave employer in next six months:** “In the next 6 months, I plan on actively seeking new jobs outside of my current company.”

## About PayScale

Creator of the world’s largest database of rich salary profiles, PayScale offers modern compensation software and real-time, data-driven insights for employees and employers alike. Thousands of organizations, from small businesses to Fortune 500 companies, use PayScale products to power pay decisions for millions of employees. For more information visit [www.payscale.com](https://www.payscale.com).