

Sophie Hecht  
Professor Lalith Munasinghe and Kate Gautier  
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## Are Referral Programs Crowding Out Diversity?

*“When we empower diverse entrepreneurs, we increase the likelihood that the ‘next big thing’ will address the wide-ranging needs of global population” - Melody Hobson, co-CEO of Ariel*

### *Investments*

The type of talent that a company attracts will ultimately assist in building company culture, driving sales, and positioning the company as a leader in the industry. Failing to install the right hiring process can result in the exact opposite: underperforming employees and wasting resources, time, and money. Therefore, companies have looked towards referral programs as an important mechanism to recruit quickly and efficiently. Referred candidates are of higher quality than prospectives from the general applicant pool and are more likely to both receive an offer, stay at the job for longer, and perform better. But, as diversity becomes a key issue throughout the workforce, employees have been looking at referrals differently and asking whether there could be unintended consequences to this historically lauded source of top talent. In this paper, I will attempt to understand this critique and provide a perspective on the tension between employee referrals and diversity. First, I will analyze what diversity and inclusion might mean to a company and to our society at large to uncover why we should care about diversity in the first place. Then, I will examine the challenges that referrals pose to diversity efforts and discuss potential ways in which this tension might be resolved. I include published studies, white papers, academic articles, and attestations from employees working towards increasing diversity in their respective fields. My claim is that in order for referral programs and increased diversity to

coexist, companies must be conscious of their hiring efforts and implement ways to encourage their employees to expand their networks beyond their inner circles.

Many companies use the terms “diversity” and “inclusion” throughout their hiring processes, but often lump together their potential business outcomes with societal outcomes. Research has shown that diverse teams perform better than uniform groups because they focus more on facts, they process those facts more carefully, and they are more innovative.<sup>1</sup> In a study published in *Innovation: Management, Policy & Practice*, researchers found that companies with higher gender diversity were more likely to introduce radical new innovations into the market. Furthermore, a study published in *Economic Geography* showed that companies run by culturally diverse leadership teams were more likely to generate unique ideas and develop new products than those with homogenous leadership.<sup>2</sup> Evidently, enriching an employee pool with representatives of different genders, races, and nationalities is key to boosting a company’s potential. Furthermore, having different people working on a product will make it more useful and well received by the customer. Gabrielle Sirner-Cohen, an ex-Chief of Staff and Diversity Communications Lead at Google and now VP of Places & People at a start-up, experienced this reality first hand. After designing a tool to upload videos from one's cell phone, Google engineers noticed that many videos were uploading upside down and they could not understand why. After thorough investigative research, they discovered that those who are left-handed normally flip their phone the opposite way when taking a video than those who are right-handed. The newly designed uploading algorithm did not account for this difference because the engineers did not even consider the perspective of a lefty; the algorithm only catered to one type

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<sup>1</sup> <https://hbr.org/2016/11/why-diverse-teams-are-smarter>

<sup>2</sup> *ibid*

of person. This highlights the importance of perspective when designing technology and the idea can be extrapolated to many different fields aside from engineering. Having the same type of people working on a product leads to missed perspectives and fewer innovations. If one must be well connected in order to get a job through a referral, then those programs could crowd out minority represented, ultimately lowering equal opportunity. By not being introduced to those minority groups, employers miss out on the untapped potential of many individuals.

To struggle with this idea, I connected with Dr. Diarra Lamar, a Partner at PwC Strategy& who currently leads their diversity and inclusion recruiting efforts. Over the course of our conversation, Dr. Lamar shared two connected ideas: firstly, referral programs are not universally beneficial and secondly, diversity is not necessarily universally beneficial either. Having a recruitment team that breeds sameness year over year might put a company at a disadvantage and differentiation of ideas leads to innovation throughout the company, ultimately placing the company at an advantage in their field. But what if the company does not need to be innovative to succeed? Consider the fundraising capabilities of the NRA. Their donations likely come from a very specific type of person. If that's where the money is, why would they need a diversity of thought? They simply need to appeal to their consistent donors. At companies and organizations like this, where the goal is not necessarily to do the right thing, but rather, to do things right, diversity and inclusion is not a top priority. That is, until it actually *is*. Our world and specifically our economy are ever changing atmospheres and if having a variety of thoughts and opinions is not necessarily useful right now, it could be crucial in the future. The types of people who support the NRA today could change in a year from now, and if the NRA does not know how to appeal to those new donors, then they won't be able to survive. In that regard, diversity should most definitely be on the minds of every employer as a way to move forward

and grow. Diversity and inclusion are not universally good and definitely vary by instance. Overall, when there are few absolutes, one can be constantly seeking foundation and reliability. The reality is: there is diversity in how people understand and value diversity.

After my conversations with Diarra and Gabrielle, I gained a deeper understanding about the many ways to define success and productivity in different companies. Their experiences with diversity first hand in different professional sectors exposed me to the technical ways companies are grappling with the issue of diversity throughout the hiring process. Aside from technicalities, their ideas led me to think about the psychological aspect of diversity and inclusion in the workforce. What does having multiple types of people in the same room do for the productivity of a company? A research study done by Google found that the number one driver of team effectiveness was psychological safety, which refers to an individual's perception of the consequences of taking an interpersonal risk.<sup>3</sup> This means that they feel confident that no one on the team will embarrass or punish anyone else for admitting a mistake, asking a question, or offering a new idea. If this is the basis of team efficacy and performance, then safety is yielded by seeing people that look like you, so they are not always the minority in the room. While referrals are the most efficient way to hire, they always come at a price. For this reason, employers should work towards having referrals and diversity coexisting in the future, and once companies become more diverse with these increased efforts, referrals and inclusion will not clash like they often do right now.

If companies decide that they are worried about diversity given the previously described considerations, then one key area of focus must be hiring. Much research on referrals has been conducted about how it improves the hiring process. Professor Lalith Munasinghe and Kate

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<sup>3</sup> <https://rework.withgoogle.com/print/guides/5721312655835136/>

Gautier's research from a call center discusses this idea. In their Harvard Business Review, they explain that both the referral and employer "aim to predict the quality of the match based on the information that they have". With a referral, both parties have more information and therefore, fewer hiring errors are made. To prove this point with data, Professor Munasinghe and Kate tracked the outcomes of referrals at a global call center and found that people who came through internal referrals generated 70% more good hires compared to those who came through other channels.<sup>4</sup> Their research shows how bringing hard to observe information into the hiring process can immensely benefit a company. But if companies only hire through referrals, then one must know somebody in the company in order to be interviewed. According to the US Bureau of Labor Statistics, whites make up 76.1% of the information sector, 79.2% of the financial sector, 77.6% of the professional and business services sector, and 73.3% of the public administration sector, compared to almost 49.2% of the population.<sup>5</sup> If "birds of a feather flock together", then network-based hiring would highly benefit white males and exclude people who are not as well connected. Minorities and women - the kind of people who are historically not as well connected- will be at a disadvantage when it comes to finding a job through social networks. Furthermore, PayScale conducted an experiment on 53,000 workers' hiring experiences and found that referrals benefit white men more than any other demographic group. More importantly, the use of referral programs and the amount of diversity in companies varies across firms and industries. The construction industry heavily is built on referrals, as is the energy and utilities industry and the financial industry. Furthermore, the technology industry has been heavily scrutinized for relying on personal connections for hiring and for having low diversity

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<sup>4</sup> <https://hbr.org/2020/05/build-a-stronger-employee-referral-program>

<sup>5</sup> <https://www.bls.gov/cps/cpsaat18.htm>

numbers.<sup>6</sup> This begs the questions: if referral programs are crowding out diversity, is there a way to both hire through referrals and increase a company's diversity?

To mitigate disparities between referrals and diversity, many companies have implemented alternatively designed referral programs to reap the benefits of both the referral and increase their diversity. Citrix invites anyone in the company, full-time, part-time, and contract employees, to refer candidates, in an attempt to broaden their network of referrals. Intel offers separate rewards to encourage employees to refer women and minorities, specifically offering double bonuses, \$4,000 compared to \$2,000, for referrals that help them reach their diversity goals. Similarly, Accenture publicly announced that they pay employees “enhanced” bonuses when they refer black, Hispanic, women or veteran candidates that resulted in successful hires.<sup>7</sup> These monetary incentives may lead to higher rates of diversity, but also could lead to minorities feeling like transactions instead of worthy and desired hires. Additionally, firms need to be aware of legal issues that could arise from offering higher bonuses for diverse referrals. Title VII of the Civil Rights Act prohibits employers from hiring based on race, color, national origin, sex, and religion. That being said, the U.S. Supreme Court has recognized an exception to Title VII’s protections from discrimination in industries where employers can establish a historical imbalance or disparity in the workforce. This would allow banks, for example, to hold diversity-specific student networking events on college campuses to reach a wider racial network, and tech companies to prioritize hiring women.<sup>8</sup> Finally, Gabrielle Sirner-Cohen elaborated on how her company is working on ways to have diversity and referrals coexist through the recruiting process. She has designed a method with the goal of priming the company's employees to think

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<sup>6</sup> PayScale White Paper: The Impact of Job Referrals: Effects of Pay, Engagement, Diversity

<sup>7</sup> <https://chiefexecutive.net/can-my-company-pay-higher-bonuses-to-employees-who-refer-diverse-candidates/>

<sup>8</sup> <http://www.epspros.com/news-resources/white-papers/2020/the-balancing-act-of-diversity-hiring.html#:~:text=Title%20VII%20of%20the%20Civil,origin%2C%20sex%2C%20and%20religion.>

differently about who they refer. During the upcoming recruiting cycle, they plan to give the employees a card with different characteristics on it to get them thinking about different people in their networks that would be good for the job. Some of the examples include a person who speaks a different language, who has spent time in the military, who is a different gender, and so on. After working in Human Resources for over 15 years with special experience in diversity hiring, Gabrielle understands that referrals are the most efficient way to hire, but also come at a price. For this reason, she hopes that the two can go hand in hand in the future, and once companies become more diverse with these increased efforts, referrals and inclusion will not clash like they can right now. But until then, she will continue to work on ways to have referral programs and increased diversity coexist.

For organizations to take proactive steps to mitigate the risk of negative consequences of referral programs, they must understand the downsides to referrals. While referral programs have been proven to be the most efficient and effective way to hire, they also crowd out minority groups that do not have access to a connection in the company. The benefits from having a diverse workforce could outweigh the benefits of referral programs. Though these benefits vary across firms and industries, understanding how these two ideas interact with one another could put a company ahead in the long run. Whether it's through specialized recruiting sessions for minority groups or incentivizing employees to think deeply into their networks before making a referral, companies, specifically in the technology sector, should consider the benefits that result from combining their referral and diversity efforts.