Competitive Job Seekers:
When Sharing Less Leaves Firms at a Loss

Based on BFI Working Paper No. 2024-26, “Competitive Job Seekers: When Sharing Less Leaves Firms at a Loss,” by Gaurav Chiplunkar, University of Virginia; Erin M. Kelley, World Bank; and Gregory V. Lane, University of Chicago

Randomly increasing the amount of competition for a job makes jobseekers less likely to share information about it with their peers and in particular to share it with fewer, higher ability peers. This lowers the quality of firms’ hires.

Well-functioning labor markets rely on the ability of firms to identify and hire the most qualified candidates. Particularly in low-income countries, firms often depend on social networks to disseminate information about job openings and attract high quality candidates. Any frictions that are created by jobseekers competing for jobs could have negative impacts on the quality of matches between workers and firms. In this paper the authors study how firms’ hiring strategies and jobseekers’ strategic behavior affect the dissemination of job information and subsequent labor market outcomes.

The authors design a randomized controlled trial in partnership with six colleges in Mumbai, India. They share information about short-term job opportunities with random subsets of college students, whom they refer to as “entry points.” Some jobs are competitive, meaning that the students the authors inform about the jobs (the entry-points) must apply and compete with their peers for these positions, and some are noncompetitive, meaning that entry-points are guaranteed the positions (but can still share the information with their peers, who can also apply).

Each week for six weeks the authors randomly distribute information about either competitive or noncompetitive jobs to entry points, and use data from surveys and job applications to observe how information about different jobs flows through the students’ social networks. They find the following:

• Jobseekers were more likely to share information with their social networks about noncompetitive jobs than competitive jobs.

Frictions: impediments that prevent markets from operating perfectly and efficiently, leading to suboptimal outcomes and deviations from ideal market behavior.

Randomized controlled trial: A scientific study in which participants are randomly assigned to either a treatment group receiving the intervention being tested or a control group receiving a placebo or standard treatment. This method is used to objectively evaluate the effectiveness of a new treatment or intervention.
• Jobseekers were more likely to share both competitive and noncompetitive jobs with their close friends. The strength of a friendship mitigates the competitive effects of information sharing: individuals were more likely to share job information with their closest friends even if they had to compete with them.

• Male jobseekers were less likely to share information about competitive jobs with both high ability peers and with other men. The authors observe no such impacts among women.

• This strategic behavior harms the quality of candidates who apply to and are hired for competitive jobs. Students who apply to and are hired for noncompetitive jobs tend to have higher GPAs and perform better once hired than students hired for competitive jobs.

• Doubling the wage among competitive jobs attracted a better pool of applicants and hires; however, firms would have to increase wages by 3-6 times to get the same increase in ability induced by eliminating the strategic behavior identified in this research.

These results indicate that firms advertising competitive positions may miss out on high ability candidates if they rely heavily on social networks to disseminate information about jobs. They suggest that whenever competition-related worries are prominent (as seen among day laborers, for instance), the quality of referrals might be lower compared to situations where jobseekers are less concerned about their future job prospects (such as among full-time employees). They also have important implications for policymakers seeking to improve matches between employers and jobseekers: They suggest there is value in supporting technologies that allow job information to flow outside social networks — e.g., job portals, or information campaigns at universities — or employees who refer their peers to openings are properly incentivized.

READ THE WORKING PAPER
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