

# Labor markets and organizations: A screening theory of hiring networks and racially homogeneous employment

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## Abstract

This theoretical analysis uses three relationships between individual and organizational performance to help explain when organizations will use different labor markets to organize employment and when they will use different hiring networks. Granovetter's [Granovetter, M. (1973). The Strength of Weak Ties. *American Journal of Sociology*, 78, 1360–1381] distinctions about job seekers' networks are combined with Jacobs' [Jacobs, D. (1981). Towards a theory of mobility and behavior in organizations: An inquiry into the consequences of relationships between individual performance and organizational success. *American Journal of Sociology*, 87, 684–707] and Marsden and Campbell's [Marsden, P. V., & Campbell, K. E. (1990). Recruitment and selection processes: The organizational side of job searches. In R. Breiger (Ed.), *Social mobility and social structures* (pp. 59–79). New York: Cambridge University Press] work on employers' recruitment and screening strategies to develop insights about when weak or strong ties will be used in the hiring process. Strong ties between a job seeker and an intermediary and between the intermediary and an employer are possible without also assuming a tie between the job seeker and the employer. This is possible because the tie between the job seeker and the intermediary exists in a different kind of network than the tie between the intermediary and the employer. When employees can only hurt collective efforts and employers are concerned about the quality of information about job seekers, administrators will prefer strong ties. These ideas also explain when ethnic homogeneity in hiring will be most prevalent.

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There is little consensus about the multiple sociological theories of labor markets. In the absence of a plausible approach that takes both organizational processes and networks explicitly into account, empirical work will remain handicapped. Organizational factors contribute to the kinds of labor market networks used to fill vacancies, yet despite the importance of such

issues, we lack an integrated theory about these critical processes.<sup>1</sup> After briefly discussing some necessary

<sup>1</sup> The lack of an organizational theory about labor markets troubles economics as well as sociology. Probably labor market outcomes are the most problematic anomaly in this discipline. Despite presumptions that markets always clear, labor markets do not. Even after sharp reductions in the demand for labor, labor prices in wages and salaries rarely fall. In the 1930s when unemployment went beyond 25%, real earnings stayed well above their pre depression levels (Gordon, 1990, p. 190). Pay levels typically persist after declines in the demand for

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elements from prior work (Jacobs, 1981), we present a combined organizational and network framework based on position characteristics that condition administrative decisions about hiring, careers, and other labor market outcomes.

Although this perspective will be used to explain many labor market and career outcomes, at the end of this paper we emphasize one extremely important consequence. Work on gender and employment has considered organizational level processes (Kirschenman & Neckerman, 1991), but research on minority hiring has largely neglected these effects (but see Braddock & McPartland, 1987). The theory we develop here suggests that organizations do not use the same hiring networks when they fill different positions. This divergence creates some crucial obstacles that minorities face when they seek many jobs. As a result, minority hiring is automatically reduced in these positions. These obstacles faced by minorities are based on the screening methods and resulting networks that provide most optimal method for organizations to select prospective employees when they fill vacancies for such positions.

Granovetter's (1973) seminal insights about the effects of weak tie networks provide a foundation for this analysis. In contrast to strong ties, actors connected by weak ties obtain superior information, so job seekers linked by weak ties should get better jobs. Yet Granovetter's predictions about the efficacy of weak ties apparently do not hold when some common conditions are present. Murray, Rankin, and Magill (1981) find that strong rather than weak ties are more important when demand for labor is weak. Other analyses (Bridges & Villemez, 1986; Marsden & Hurlbert, 1988) suggest that weak ties do not help applicants get better paying jobs, while additional findings (Lin, Walter, & Vaughn, 1981a,b) are not always consistent with Granovetter's expectations.

Our goal is to develop a combined organizational and network framework that uses position characteristics to explain some of these anomalies. Following Marsden and Campbell (1990), we see the job

seeker–intermediary–employer triad as produced by different social relationships. Labor markets are dualistic settings in which job seekers' and employers' utilization of networks must be considered simultaneously because the ties between job seekers and intermediaries often are qualitatively different from the ties between intermediaries and employers. Such ties are best viewed as existing in separate but co-existing networks. This distinction will let us relax Granovetter's "forbidden triad" redundancy argument as it allows situations in which strong ties between A and B as well as strong ties between B and C could exist without a tie existing between A and C. Recognition of these separate networks will let us develop what seems to be a new approach that highlights organizational conditions that make strong ties more useful than their weak counterparts.

The argument presented in this paper rests on Jacobs' (1981) classification of three common organizational positions. These positions are defined by how they shape relationships between individual and organizational performance. When Granovetter's contrasts between strong and weak ties are combined with this positional typology, the conditions that determine when his argument applies and when it does not can be spelled out with greater precision. Granovetter's claims about the superiority of weak ties make *prima facie* sense from the job seeker's standpoint, but weak tie networks are not always best for employers. Our presentation will show the conditions when administrators will try to use strong-tie hiring networks. From the employer's standpoint, an overriding concern is the quality of information particularly when some organizational vacancies must be filled. These incentives operate coextensively with the job seeker's need for a greater quantity of information about vacancies.

We begin by presenting (with some refinements) postulates about the effects of different relationships between individual and organizational performance based on the typology in Jacobs (1981). To develop new perspectives on hiring networks, the next section briefly summarizes Jacobs' discussion about how these considerations affect careers, but it adds new material on the kinds of labor market arrangements that organizations use in units dominated by these positions. The third section combines these ideas with Granovetter's network approach to provide a novel argument about when strong and weak ties will be most useful to employers. We go on to use this framework as the basis for new ideas about some organizational conditions that will determine when minorities face increased obstacles when they seek employment.

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labor (and competition often does not erode discriminatory practices) because organizations protect employees from outsiders who are willing to take their jobs at lower wages. Most economists overlook such effects by assuming that organizations are undifferentiated unitary actors (Stiglitz, 1991; Williamson, 1975) that must quickly adjust to the inescapable pressures of competition to survive. While some economists have provided useful conceptual efforts to deal with these critical anomalies (Holmstrom and Tirole, 1989; Lilien and Hall, 1986; Parsons, 1986), these remedies remain peripheral to the neo-classical paradigm.

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