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Hiring frictions and the promise of online job portals: Evidence from India

This practitioner brief draws insights from a research project supported by the Small and Growing Business (SGB) Evidence Fund. The SGB Evidence Fund, a partnership between the Aspen Network of Development Entrepreneurs and the International Growth Centre, supports collaborations between researchers and practitioners to understand the most effective ways to support SGBs and the economic and social impact of SGB growth.

- Authors: A Nilesh Fernando, Niharika Singh, and Gabriel Tourek
- Study location: Bengaluru, India
- Link to full paper: The most recent version (under review) of this study is accessible [here](#).

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About the issue

Firms across the developing world report difficulties in recruiting effective employees.¹ A potential issue is the reliance on traditional recruitment networks — family, friends, existing coworkers, and their referrals. While network-based recruiting limits costs and may better facilitate the monitoring of workers, it may also constrain the quantity and quality of potential hires.² This inefficiency in the recruitment process may be particularly consequential for small and medium-sized enterprises (SMEs) in lower-income countries, for whom even marginal improvements in productivity could yield outsized impacts on growth.³ In developing countries, where SMEs employ large shares of the labor force, firms' hiring constraints can, by extension, limit the employment opportunities of job seekers.⁴

The authors investigate these constraints in the large urban labor market of Bengaluru, India. Two-thirds of firms in their study sample cite challenges in recruiting suitable workers as an impediment to improving and scaling operations. At the same time, many of these firms primarily recruit through traditional networks. One reason firms value network-based hiring is that it allows them to better assess the trustworthiness of potential hires. Specifically, employers report being quite concerned about employee malfeasances, such as theft or crime. Personal networks offer richer information about the probity of potential hires — as well as a means for sanctioning bad behavior — that employers value in addition to the qualifications required for a role. Using a randomized field experiment, the authors explore whether an emerging recruitment technology — online job portals — can help to alleviate constraints on hiring among Bengaluru SMEs.

Study design

The researchers partnered with QuikrJobs, an online job portal in India specializing in lower-wage positions in the retail and service sectors, to test interventions aimed at reducing barriers to hiring. The experiment spanned over 1,719 vacancies posted by local SMEs (i.e., firms with fewer than 50 employees) on the online job portal between November 2018 and January 2020.

In the experiment, vacancies were randomly assigned to receive one of four interventions: larger pools of applicants (Scale), identity verification of applicants (Verification), both (Joint), or neither (Control). Firms in the Scale treatment group received "top-of-page" placement for their job posting, which increased its visibility and doubled the number of

1 See for example: Abebe, G., Caria, S., and Ortiz-Ospina, E. (2021). The selection of talent: Experimental and structural evidence from Ethiopia. *American Economic Review*; Caria, S. and Falco, P. (2022). Skeptical employers: Experimental evidence on biased beliefs constraining firm growth. *The Review of Economics and Statistics*.

2 Chandrasekhar A. Morten M. and Peter A. 2020. "Network-Based Hiring: Local Benefits; Global Costs" *National Bureau of Economic Research*.

3 Hsieh C. and Klenow P. 2014. "The life cycle of plants in India and Mexico." *The Quarterly Journal of Economics*, Vol 129, No. 3, pp. 1035-1084.

4 The World Bank estimates that SMEs in emerging markets account for over 50% of employment and 40% of GDP: <https://www.worldbank.org/en/topic/smefinance>.

applications relative to the control group. The Verification treatment provided employers with access to verified background information on individual applicants. Job postings by firms in the Joint treatment group received both advertising service and identity verification of applicants. The Control group received no interventions beyond access to the platform's normal job posting process.

The Scale treatment was intended to test whether simply expanding the pool of applicants that employers consider could increase the likelihood of finding a suitable match. The Verification treatment tested whether improving information about applicant trustworthiness alone matters. The Joint treatment combining both interventions evaluated whether both tools in tandem are necessary to improve hiring outcomes.

Results

The authors find that firms are significantly more likely to fill a job vacancy when they receive both interventions (i.e., the Joint treatment). Firms in the Joint treatment group were 68% more likely to hire workers from the online job portal than firms in the control group. In contrast, the authors do not detect changes in hiring among those receiving only larger applicant pools (Scale) or identity verification services (Verification)⁵. The increase in portal-based hiring among Joint firms does not simply substitute for hiring through traditional networks; these firms are significantly more likely to hire overall—across all recruitment methods—than firms in the control group. Moreover, firms making portal-based hires report retaining such employees beyond the standard assessment period, suggesting online job portals can provide a source for suitable employees outside of traditional networks.

In the Bengaluru context, the ability to both attract skilled applicants and screen them is crucial to inducing firms to hire from the portal. Even though advertising attracts more skilled candidates to vacancies, employers appear unwilling to hire unfamiliar applicants from the portal without additional information on trustworthiness provided via identity verification. This is especially true for smaller employers (those with fewer than 10 employees) in the study, who are more likely to report being concerned about employee behavior and possess less capacity to screen applicants. More broadly, the possibility that online job portals can alleviate constraints on recruitment among firms in emerging markets may thus depend on the extent to which they can address and solve multiple recruitment challenges in tandem.

⁵ Companies in Joint and Scale conditions received a higher volume of applications, and top-ranked applicants in these conditions had significantly higher qualifications than those in the Verification or control groups, although the increased number of candidates did not raise the average skill of the applicant pool. The skill of applicants was measured by applicants' self-reported qualifications such as education, language skills, job-specific expertise, or completeness of profile.

Implications for practitioners

This study provides a foundation for research and policy work exploring how online job portals can solve constraints among SMEs in emerging markets. The constraints the authors study are not specific to Bengaluru: difficulty locating suitable candidates is a commonplace concern for firms across the developing world, and many are reluctant to hire outside their networks because of an inability to screen potential hires along dimensions like trustworthiness.⁶ The recent growth of online job portals – 22 in India alone in 2017 – offers an opportunity for firms to greatly expand recruitment networks. Yet, in India, less than 2% of firms in urban areas report using the internet to hire workers.

To leverage the expanded recruitment networks available via online job portals, there is, therefore, a need to directly embed screening tools on job portals that can improve the quality of information available to employers on workers. The experiment highlights the importance of such ancillary services in realizing the promise of online job portals.

Suggestions for online job portals

Verification services were fully subsidized during the experiment, but employers in the study showed a willingness to pay for verification services. Job portals could likely viably charge employers for these services, provided they offer value in a particular context.

Summary authored by SangEun Kim, Research Manager at the Aspen Network of Development Entrepreneurs.

⁶ See for example: Caria and Falco, 2022; Hardy, M. and McCasland, J. (2022). Are small firms labor constrained? experimental evidence from Ghana. *American Economic Journal: Applied Economics*; Cullen, Z., Dobbie, W., and Hoffmann, M. (2022). Increasing the Demand for Workers with a Criminal Record. *The Quarterly Journal of Economics*.