Hiring friends and family might actually be good for business—new research

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Mark Zuckerberg, the CEO of Meta/Facebook, recently remarked in a podcast interview that when it came to hiring new staff, his preference was people whose "values aligned in the things that you care about".

This, he said, was akin to "choosing a friend or a life partner". He went on to state that many young people were too "objective-focused" and "not focused enough on connections and … people".

This speaks to one of the eternal questions for managers in deciding who to hire: do you choose the candidate who has objectively higher ability or the one whose values are more in common with your own?

While some would unambiguously select the higher ability candidate, others like Zuckerberg might weigh differences in candidates' abilities against the extent to which they share the values of the employer. Some would go further and hire family or friends.

Many firms actually promote this with employee-referral incentive schemes that encourage hiring individuals of similar characteristics—or at the very least those who move in the same networks. The stated purpose of such schemes is to reduce the costs of hiring, increase employee retention rates and improve employee engagement. There are even guides dedicated to helping managers who hire their friends.

On the other hand, such a buddying approach to recruitment seems to contradict anti-discrimination laws. These have been enacted around the world to ensure that certain groups of individuals are not treated more poorly than others. For example the UK's Equality Act 2010 makes it unlawful to discriminate on the basis of age, gender, religion, race or sexual orientation (among others). The US equivalent, the Equal Employment Opportunities laws, similarly aims to reduce workplace discrimination.

The problem with hiring your friends

Broadly speaking, anti-discrimination laws promote diversity, while prioritising hiring friends, family or those with shared values seems to do the opposite. The American psychologist Gordon Allport, in his 1954 work The Nature of Prejudice, noted a distinction between hiring based on negative prejudices (discrimination), and hiring based on positive prejudices (factors other than ability). He claimed that while hiring based on negative prejudices created social problems, hiring based on positive prejudices did not.

Gary Becker, the American economist, made a similar distinction in his 1957 book The Economics of Discrimination but reached a different conclusion. He termed hiring based on negative prejudice as discrimination, and hiring based on positive prejudice as nepotism, and he argued that both led to economic inefficiencies. This was because both involved hiring workers for reasons other than ability, which he reasoned was the greatest predictor of output.

The role of human behaviour

But why would many companies explicitly focus on recruiting friends and family if it were really bad for business? Could it be that hiring decisions that don't prioritise a candidate's abilities might lead to lower output, but having employees with shared values is still better for an organisation overall?

In a recent paper myself and two research colleagues, Catherine Eckel and Rick K. Wilson, sought to find out. We conducted a controlled laboratory experiment with a sample of university students with strong social ties at Rice University, Texas. Upon admission, students at Rice are sorted into "residential colleges", which are essentially housing where they typically stay throughout their studies. Students of the same college live together, eat together and compete against other colleges in a variety of activities, inculcating a strong college-based identity and shared values.

In our experiment, we got the students to play a famous two-player game that economists use to measure trust. This simulates a manager-employee relationship by first giving an individual in the role of a manager a small sum of money—usually US$10 (£7.66).

They are then asked how much they would like to transfer to an individual in the role of an employee. Whatever they transfer is then multiplied, usually by three, and given to the employee. The employee must decide how much to give back to the manager. Both are trying to end up with as much money as possible. Hence the manager is investing in the employee and trusting them to return some of the investment. The employee chooses how much to send back to the employer, which is a measure of reciprocity/effort.

In our version, managers had to choose between investing in an employee from the same residential college (meaning they had shared values), and one that was not. They were also made aware that different employees had different "abilities", in the sense that the multiplier that determined how much money they received from the investment would be smaller—for example, 2.5 instead of three.

In some cases, the employee with the shared values was "lower ability". This meant that the manager would need to trust them to give back a higher proportion of their money than the alternative choice would give back.

When faced with employees of equal ability, 80% of managers chose the one from their college. Even when their fellow college member was "lower ability", 40% of managers still chose them. In other words, while at least some managers were choosing partners based on ability, a significant proportion incorporated college membership into their decision.

Employees from the same college exerted more effort for their managers (meaning they returned a larger share of the money) when they were "lower ability" than the other candidate. This suggested that "lower ability" group members compensated for their handicap by increasing their effort. On average, when managers with a choice of candidates of "equal ability" went with their college mate, they made 10% more money. And among those offered a "lower ability" college mate and a superior outsider, they made 7% more by going with the college mate.

These results imply that focusing on ability alone ignores the contribution to output of behavioural factors such as engagement, trust, motivation and effort. As long as differences in ability are not too large, hiring from within employee networks would appear to be a profitable strategy. Becker had it wrong, in other words.

So while it was previously thought that hiring based on network or familial ties was mainly altruistic, our research suggests otherwise. It may still bring up managerial challenges, such as having to tell these employees what to do, or calling them out when they don't meet expectations. But employers trust employees more when they share their values, and the employees may compensate for their lower ability by working harder, benefiting the organisation as a result.

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