

# OVERCOMING INFORMATION ASYMMETRY IN JOB SEARCH: THE POWER OF A REFERENCE LETTER

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## KEY MESSAGES

- **The labor market is characterized by information gaps between work seekers and prospective employers, particularly when it comes to hiring low-skill entry-level workers.** Information asymmetries about workers' skills can result in poorer matches, lower productivity for employers, and increased inequity for the unemployed.
- **One approach to resolving the asymmetry is introducing a formal referral system: reference letters from former employers.** Through a field experiment in South Africa, we evaluated the effect of formal reference letters from former employers on youth employment outcomes.
- **We find that reference letters improve firms' screening ability and employment outcomes, especially for women.** Reference letters allow firms to identify higher-ability candidates and increase the likelihood of employer call-backs. Women who use the reference letter double their employment likelihood, while no effect is observed for men.
- **Despite their high value, the use of reference letters in job applications is low, partly due to work seekers underestimating their value.** Providing job seekers with information on the benefit of reference letters increases the use of this job search tool.

## GENDER INNOVATION LAB

The Gender Innovation Lab (GIL) conducts impact evaluations of development interventions in Sub-Saharan Africa, seeking to generate evidence on how to close the gender gap in earnings, productivity, assets and agency. The GIL team is currently working on over 50 impact evaluations in 21 countries with the aim of building an evidence base with lessons for the region.

The impact objective of GIL is increasing take-up of effective policies by governments, development organizations and the private sector in order to address the underlying causes of gender inequality in Africa, particularly in terms of women's economic and social empowerment. The lab aims to do this by producing and delivering a new body of evidence and developing a compelling narrative, geared towards policymakers, on what works and what does not work in promoting gender equality.

# DESIGNING THE REFERENCE LETTER TEMPLATE

## Firm & Relationship Information

Subject: Reference for \_\_\_\_\_ (Name) \_\_\_\_\_ (Address of Firm)  
 \_\_\_\_\_ (Address of Firm)  
 To Whom it May Concern:  
 My name is \_\_\_\_\_ (Name). I am the \_\_\_\_\_ (Position) of \_\_\_\_\_ (Firm/Business Name).  
 Our firm is \_\_\_\_\_ (Describe what firm is doing).  
 I have known \_\_\_\_\_ (Name) for \_\_\_\_\_ (Time Known). He/She has worked for our firm as a \_\_\_\_\_ (Position) for \_\_\_\_\_ (Time Worked).  
 From \_\_\_\_\_ (daily/weekly/monthly) interactions I feel \_\_\_\_\_ (very confident/confident/somewhat confident) to accurately judge his attitude and skills.

## Soft Skills

Attitude	Rating					Comment
Team ability: Ability to work under supervisor and in a team.	Very good	Good	Average	Below average	Cannot rate	
Interpersonal skills: Friendliness and communication with customers/co-workers.	Very good	Good	Average	Below average	Cannot rate	
Work Ethic: Willingness and ability to work hard.	Very good	Good	Average	Below average	Cannot rate	
Reliability: Show up on time and not mismanage funds/equipment.	Very good	Good	Average	Below average	Cannot rate	
Agreeability: Responds well to instructions/is able to adapt.	Very good	Good	Average	Below average	Cannot rate	

ADDITIONAL COMMENTS on Attitude: \_\_\_\_\_

## Hard Skills

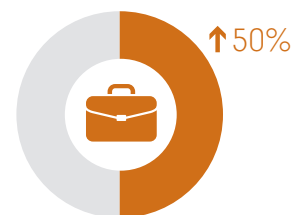
Skill	Rating					Comment
Numeracy: Math skills necessary for this job.	Very good	Good	Average	Below average	Cannot rate	
Literacy: English proficiency, reading/writing skills needed for this job.	Very good	Good	Average	Below average	Cannot rate	
Computer literacy: Use of Windows, Word, Excel, Internet, etc.	Very good	Good	Average	Below average	Cannot rate	
Learning ability: Able to pick up new skills quickly	Very good	Good	Average	Below average	Cannot rate	
Task 1: (describe task)	Very good	Good	Average	Below average	Cannot rate	
Task 2: (describe task)	Very good	Good	Average	Below average	Cannot rate	

ADDITIONAL COMMENTS on Attitude: \_\_\_\_\_

## Termination & Contact

Our employment relationship ended because \_\_\_\_\_ (Reason for end of employment).  
 I would \_\_\_\_\_ (highly recommend/recommend/recommend with reservations) \_\_\_\_\_ (Name).  
 If you have any questions do not hesitate to contact me via phone \_\_\_\_\_ and/or email \_\_\_\_\_.  
 Sincerely,  
 \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Women who received reference letter templates were approximately 50% more likely to be employed



with employment rates effectively **doubled** for those who used the letters



When hiring low-skilled, entry-level workers, firms face incomplete information on worker productivity, forcing employers to rely on network-based hiring and proxy signals of workers' abilities, such as education, gender, race or age. This disadvantages young workers, women, and members of marginalized groups who have weaker connections to the labor market. In addition, it limits the pool of potential workers available to firms with detrimental effects on employee-employer match quality and firm productivity.

## SO WHAT TO DO ABOUT IT

Encouraging job seekers to obtain references and use them in job search could help alleviate the information frictions between workers and firms. To this end, the World Bank's Africa Gender Innovation Lab, in collaboration with the Jobs Group, researchers from Middlebury College, Stellenbosch and Cape Town universities, and the South African Department of Labour, launched a field experiment to identify the impacts of a formal referral system on youth employment outcomes.

## HERE'S WHAT WE DID

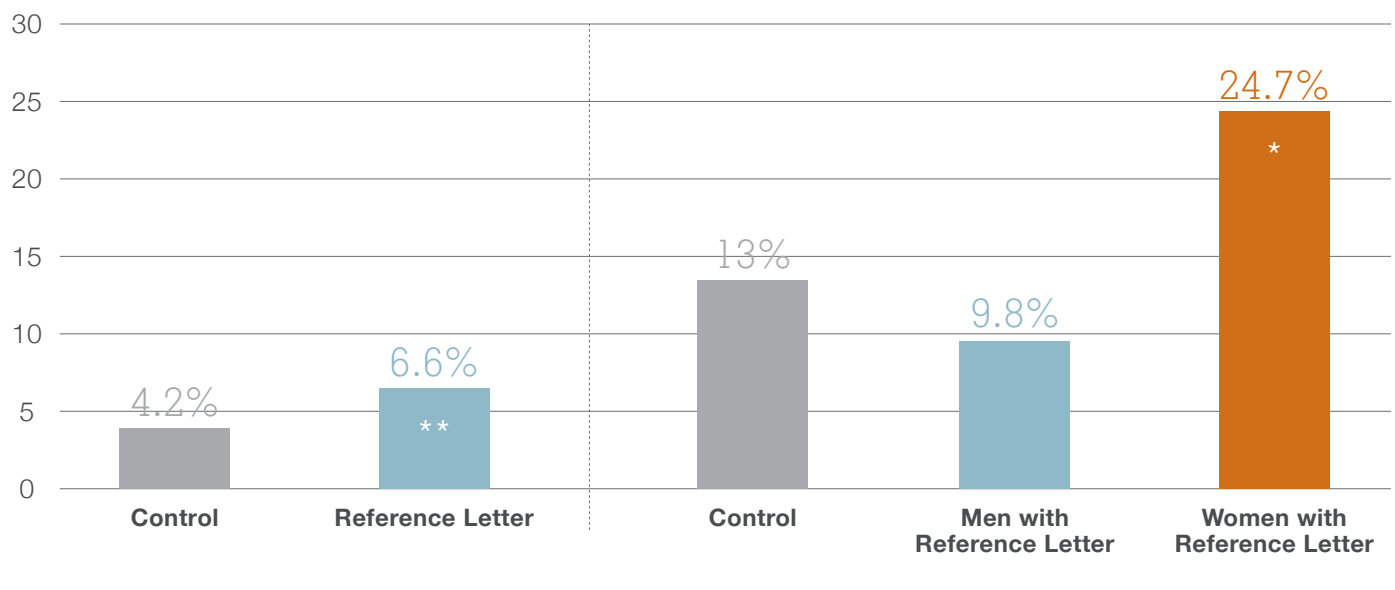
We started by conducting qualitative interviews with employers to understand the information challenges they face when hiring workers. This highlighted the importance of contactable references during the screening process, particularly references from former employers.

We then designed a reference letter template based on feedback from these firms about the type of skills and information prospective employers would like to know about the candidate. The reference letter included information on 'hard' skills such as numerical abilities and literacy, as well as 'soft' skills such as motivation, reliability and work ethic.

We then conducted a series of experiments. To test whether reference letters are valuable to firms, we first submitted applications on behalf of job seekers to vacancies with and without reference letters and compared firm responses. To test whether reference letters are effective for work

## FIRM CALL-BACK LIKELIHOOD

## EMPLOYMENT LIKELIHOOD



seekers, we next encouraged half of job seekers to obtain a letter and subsequently followed their job search behavior and employment outcomes. Finally, we tested whether providing information about the effectiveness of the letters helped increase the share of work-seekers who obtain a letter.

## HERE'S WHAT WE FOUND

**Despite the high-value that firms put on reference letters, we see a very low prevalence and use of reference letters.** At baseline, less than 10 percent of our sample of job-seekers used a reference letter in their job search. Most job-seekers do not ask for a letter, as they believe that employers would refuse to write one. However, we find that the majority of those who asked for a letter (after encouragement) could obtain one.

**Including a reference letter in a job application increases the likelihood of employer response.**

Overall, reference letters increased call-backs by firms by approximately 60 percent. Women who included a reference letter had a greater response likelihood than their male counterparts (89 percent) although this gender difference is not statistically significant. This is particularly important considering women's greater exclusion from traditional job referral networks.

**Reference letters are informative and allow employers to identify higher-ability candidates.**

The ratings provided by previous employers on the reference letters are highly correlated with numeracy and literacy test results administered at the labor center, providing prospective employers with reliable information about candidates' abilities that were previously unobservable. This led to more effective screening as candidates of higher ability were 63 percent more likely to receive an employer response and interview when using a reference letter.

**The evaluation of the candidate provided by the former employer matters to prospective employers, especially when it comes to female candidates.**

Women with better reference letters are more likely to receive responses from employers and interview requests. However, the same is not observed for men, suggesting that employers are more uncertain about women's abilities. This demonstrates that reference letters are a valuable tool particularly for women job seekers.

**Providing job seekers with reference letter templates improved employment outcomes, and this effect was driven by women.** After three months, we did not observe an employment



effect on men. However, we found that women who received reference letter templates were approximately 50 percent more likely to be employed, with employment rates effectively doubled for those who used the letters, which closed the gender employment gap in the sample.

**Providing information about the value of reference letters may increase the likelihood of obtaining a reference letter.** We found that providing job seekers with information about the benefits of using a reference letter in job search helped increase the share of people who obtained a letter by 67 percent, suggesting that job seekers underestimate the potential value of reference letters.

## NEXT STEPS

Reducing information asymmetries in the labor market has the potential to be welfare improving for both work seekers and firms. Encouraging job seekers to obtain a standardized reference letter from a former employer can lead to substantial improvements in firms' screening ability and significant employment effects for work seekers – especially for women who face greater constraints in obtaining employment. This low-cost solution can be scaled up within existing employment services infrastructure as a complement to ongoing services for the unemployed.

### For more information on this study:

Abel, M., R. Burger and P. Piraino (2017). The Value of Reference Letters. Policy Research Working Paper. WPS8266. The World Bank. <http://documents.worldbank.org/curated/en/632421513000919521/The-value-of-reference-letters>

The Jobs Group was created to support World Bank Group (WBG) client countries in the design and implementation of integrated, multi-sector, jobs strategies to reduce poverty and ensure inclusive growth. These jobs strategies articulate policies and programs which address three main challenges most countries face to varying degrees: creating jobs in the formal, private sector; improving the quality of informal jobs; and expanding access to (better) jobs for certain population groups (e.g., women, youth, the poor). The Jobs Group develops solutions to the main jobs challenges and measures the impact of these solutions on jobs outcomes.

[www.worldbank.org/en/topic/jobsanddevelopment](http://www.worldbank.org/en/topic/jobsanddevelopment)

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