

# Strategic party formation on a circle & the role of social proximity in job referrals

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# Valorization

In this chapter we discuss what we learn from this research, how it can be applied and create value from knowledge for the society. Two distinct parts of the thesis in different fields of economics will be handled separately.

## On political economy

Why in the Netherlands there are so many political parties where in the US we only speak of Republicans and Democrats? Because the US has a winner-takes-all approach in the elections and the Netherlands favors a proportional representation. We know since decades that the former approach leads to two major parties and the latter leads to the formation of many political parties with diverse agendas. We just do not exactly know why.

In our attempt to explain this observation, we challenge the assumptions on how political ideology works. People are very much used to thinking of political agendas as a piece of line with rightists at the right and leftists at the left, which is the only way political agendas have ever been presented to them. Coming back to our discussion in the introduction, a political ideology cannot be observed directly but only in its consequences. We do not have to stick to this piece of line, in the end it is only an assumption.

A model of political agendas as a piece of line tells you that there are two types of extremes and that those two are furthest away from each other. Here is what Clint Eastwood mentions about extreme political ideologies: "Extremism is so easy. You've got your position, and that's it. It doesn't take much thought. And when you go far enough to the right you meet the

same idiots coming around from the left.” Offensive it might be, however it demonstrates the fact that we perceive two extremes not as exact opposites, but as rather similar ones.

We claim that established views on political ideology so far might not be accurate. We introduce a new circular model and explain the observations above about the number of parties, with only standard assumptions. This will help us for a better understanding of society, political dynamics and outcomes of voting processes. It comes in two stages: firstly on an academic level and afterwards on a societal level. In chapter 2, we develop a new model that will be adopted by other scholars and lead to discoveries of new insights on elections, party or coalition formation. This model has also technical superiorities and we believe it will accelerate the research progress in this area. In chapter 3 we provide necessary tools to work with this circular model and explain why a certain equilibrium notion we create is the most suitable one in this setting. Even if they do not immediately adopt this new model, if we can get the academic audience question the validity of their existing assumptions on political ideology this would be a drastic contribution to the science.

Once the academic audience is convinced, it is very important that this circular way of interpreting political ideology is publicized by media and used in their electoral analyses. This will improve the accuracy of their predictions and provide the voting body a better understanding of the choices they make. Policy analysts, media and non-governmental organizations can beneficially utilize this new model. Elections are a useful tool for democracy, yet elections alone do not constitute democracy. In so many ways electoral design can restrict or even shape the outcome, some of these effects listed in the introduction. In Turkey, as an illustration, the electoral rule was legislated by a military government after a coup in 1980 and today still there is a 10 percent threshold of all the votes to have a seat in the parliament. Introduced as a tool of suppression, this rule has also caused a serious minority conflict for decades. Through this thesis we serve as a reminder for nations that the design of the electoral rule is crucial and every country should question if its electoral system fits to its changing dynamics and investigate if the current electoral model fits the values of the country and enables the public to be represented, rather than serving

for the incumbent governments.

## On behavioral economics

Lean Six Sigma, a renowned methodology that relies on team efforts for continuous improvement, states underutilization of people and talent to be one of the eight wastes that needs to be removed for a successful management. Companies are looking for ways to create value by finding a good match for their talent needs and provide incentives for people to work for them by employer branding. Innovative solutions in talent acquisition and employee motivation are very much demanded by business owners, managers and HR specialists and mostly provided by online services or professional headhunting agencies.

With technological advancement and growing opportunities in social media, hiring is not what it used to be. Providing behavioral resumes based on big five personality test (JobFig), big data analysis for understanding which strategies are more effective for an employer for recruiting (Dice - open web), active search engines for finding passive candidates online (Talent bin by Monster), combining social media reports with applicant's resume is now the new reality of job markets.

Employee referrals, which means existing employees refer their connections for open positions in their company, however has been the choice of employers for many years and it still is for one very simple reason: it works. It has evolved hand in hand with social network revolution and today there are Facebook applications that help employers identify potential candidates among employees' Facebook friends or tools to rate employees on their referral performance (Jobvite).

Job referrals has some indisputable benefits. By homophily or assortative matching arguments, your employee networks provides an invaluable pool for new hires. It functions as a screening mechanism and reduces the uncertainty about a candidate's talent or labor productivity. Through better knowledge of both sides, employees can increase the quality of the match between workplace and new employees. Referrals reduce search cost.

When it comes to blue collar jobs, those benefits seems to be much less as these are manual jobs requiring comparatively less training, talent or

creativity. For these kind of jobs employers are seeking for trustworthiness and to avoid absenteeism and moral hazard such as putting in low levels of effort. This thesis demonstrates that job referrals also pays off when hiring for blue collar jobs where talent is not particularly emphasized. The role of job referrals is not limited to those of a disciplining and a monitoring device. This work shows that social proximity, which is a natural component of job referrals, encourages altruistic behavior between workers and help overcome moral hazard issues.

This work also serves as a guide for designing a successful referral scheme in companies for blue collar jobs. We list the most important elements that needs to be taken into account in the scheme. Our points are simple and effective.

Social proximity is crucial. It is more effective when employees invite their siblings , cousins, close friends rather than acquaintances. This is an important distinction from white collar jobs where the focus is on talent and weak links when utilized effectively is as important as strong links. An advantage of social proximity is that thanks to high prevalence of social networks, it is easily traceable. This thesis also presents that all the research for linking social proximity information to social media sites are of great importance.

The referral scheme itself should be clear to referrers and candidates. The volitional choice of the referrer should be emphasized in order for the employment opportunity to be perceived as a gift by the new hire. The new hire will reciprocate to the gift by higher effort and lower moral hazard. High stakes for the referrer are not necessary, in fact it can be detrimental for the process if stakes are too high. If the referrer receives a lot of compensation, the new hire may doubt the incentives of the referrer and might interpret the offer as purely selfish. On the other hand if the referrer has a high stake when the new hire underperforms, the new hire might think that it is not much of a gift as she is placed in an uncomfortable position.

In order to provide best fitting advice to companies on hiring strategies we need to understand the mechanisms underlying the success of job referrals. Our work yields useful insights that are directly applicable to the design of hiring schemes for blue collar jobs. Innovation in talent acquisition

for white collar jobs while expanding in the direction of wider utilization of social networks in hiring, can also benefit from our findings by gaining a better understanding of the effects of social ties on workplace behavior. The concepts discussed here such as gift exchange mechanism, directed altruism and egalitarian concerns are applicable to the hiring process for both types of jobs.