

## RECRUITMENT PRACTICE IN SERBIAN FINANCIAL SECTOR EMPLOYEE REFERRALS AND COOPERATION WITH EDUCATIONAL INSTITUTIONS\*

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### Abstract

*In this paper we analyzed the employee recruitment process in Serbian financial sector, with special attention on two frequently utilized methods: the employee referrals and close relationship with educational institutions. At the beginning of the paper the theoretical aspects of the recruitment process itself will be observed by referring to other authors' findings, with an emphasis on two above named methods. In the second part of the paper we will present the results of the research conducted within Serbian financial institutions which will give more insight to recruitment practice in this sector. Special contribution of this paper to the conference is the attempt to prove the existence of established links between educational institutions and the industry through the process of dissemination, which in return guarantees that student after completing undergraduate studies, are equipped with skills needed by employers.*

**Key words:** recruitment, employee referrals, educational institutions, dissemination

### 1. Recruiting process

Recruitment is a process of generating a pool of qualified candidates for a particular job. It begins with identification and attraction of candidates whose abilities, skills and personal attributes meet the requirements for currently unoccupied positions or future jobs (Przulj, 2007, pp.130). The firm announces jobs availability either inside or outside of the organization and attracts qualified candidates to apply.

Recruiting has important social and legal elements and it is one of the most important functions of human resource management departments. Recruitment system is more than a mechanic process of finding candidates and creating database from which the selection should be done. Candidates can negotiate according to their capabilities, education and work experience. Recruiting has its price and requires time. It represents a difficult process, especially if it must be repeated several times in order to attract and find suitable candidates. This process is especially expensive when the supply of work force is small and when there are no sufficient qualified candidates for the job (Torrington, Hall and Taylor, 2004, str.170). Organizations are making decision to search for workers when certain position should be filled due to employee moving to another job within the company, increased amount of work tasks, employee leaving to another company, retirement etc.

Two basic types of recruiting are internal and external recruiting. An organization can fill a position without recruiting new workers through internal sources of recruitment by:

- Work reorganization
- use of overtime work
- work mechanization
- change of working hours
- introduction part-time jobs
- new job design
- internal ads.

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Recruiting from outside the company has a number of advantages, including bringing people with new ideas. Major advantage of external recruitment is that there is a wider pool from which new talents can be chosen. It is often cheaper and easier to hire an already trained professional or skilled employee. External sources can also supply temporary employees who provide the organization with flexibility in expanding and contracting. Hiring externally gives company the advantage of potential fresh perspectives, aspects of problem solving and different approaches. New employees enable exchange of information and transfer of experience from competitors. Sometimes it also makes economic sense to search external specialists rather than to bear the expense of training current workers in a new process of technology.

Disadvantages of external recruiting arise because assess to work of new employees is more difficult and time for adapting and reorientation is much longer. Ethical problems may also arise between new and old employees in organization who believe to be qualified for the position new peers have been employed (Dessler, 2007, str. 76)

External recruitment methods are:

1. employee referrals
2. cooperation with faculties and schools: many organizations cooperate with schools and faculties, giving the scholarships for the best students, giving the chance for the practical job in their companies in order to hire them later
3. hiring agencies: ensures candidates and services of mediation which are usually free of charge
4. private agencies: register unemployed candidates and people who want to change their jobs
5. juvenile societies which can be used for fast stuffing of temporary jobs
6. open applicants data base used for recruits to be called when necessary
7. e-recruitments: due to the fast technology development it is more and more popular to recruit new candidates through internet
8. advertisement - which is the fastest and the cheapest way of recruiting.

## **2. Employee referrals**

Very common recruitment methodology is the employee referrals. Studies have shown that employees who were hired through referrals from current employees tended to stay with organization longer and displayed greater loyalty and job satisfaction than employee who were recruited in other ways. Referrals can be an effective recruitment tool, because employees have a good sense of what it takes to be a successful worker and member of the organization (Ratzburg, 2008). There are some clear advantages to using employee referrals. At first, there is a good chance that company's current employees know other people in the same line of work. There is also a good chance that the recruit already knows something about firm. In many cases, the present employee becomes successful. This method of recruitment is quick and inexpensive. Companies believe that their employees are more aware of what skills are required for a particular profile. Recruiting candidates through referrals system results in huge savings as large amounts on advertisements and placement agencies costs are saved. Most referred candidates prefer to work in an organization where they know someone, and have a buddy by their side to help out or guide them through. Companies reveal that the cost of hiring a referral candidate works out to be 60-70% cheaper than that of going through an external agency and recruitment advertisements (Naukrihub 2008).

In the research Fernandez and Weinberg (1997) compared referred applicants to others, and found that referred had advantages in interviews, better computer and language skills. Fernandez, Castilla and Moore (2000) found that employee referrals had better work histories than non-referrals. Castila (2005) found that referrals were more likely to complete a two-month training program, and that their performance is much higher. They also received more training due to knowing other people in the company who provided them with knowledge.

The referral programs are made tempting by the employers so that employees are motivated enough to refer people they know to organization. The companies are giving up huge rewards to the employees who bring in candidates, especially for hard-to-fill positions, and award them mostly when the candi-

date is inducted. The rewards range from cash bonuses to gift coupons and even luxury items. Companies are encouraging their employees to refer candidates whom they know. It also helps in team-building, as it gives employee a reason to feel that they are contributing to the growth of the company. For example Saint Francis launched new employee referral program by which employees may earn up to \$2000 by referring a quality external applicant (SFMC).

### **3. Cooperation with educational institutions**

Faculty recruiting is an important source of trainees and potential employees (Fisher et al 1993). To get the best out of this hiring strategy, the organization and its career opportunities must be made straightforward (Richardson). Human resource administrators regard college students and potential graduates as potential employees who know where their careers will take them in the future. The organization that will succeed, then, is the one that can show how the work it offers meets students' needs for skill enhancement, rewarding, opportunities, personal satisfaction, flexibility and compensation

According to Richardson two major advantages of this strategy are the cost and the convenience, since many candidates can be interviewed in short time in the same location with space and administrative support provided by the college itself. For the organization to gain maximum out of this strategy, it must be first identified what educational institution should be targeted. Selecting a small number of educational institutions which have proven to create satisfactory graduates may be cost-effective. In such a way organization may build its reputation within the educational organization, so that the students are aware of it from the very beginning of their studies. Dissemination process plays a critical role when applying this strategy, and it brings benefits to both sides, the organization and the educational institution.

This is an important source of recruitment, especially when it is a specific and scarce profession and when previous working experience is not required. Faculties often present different brochures and videos to their students which companies distribute in order to present their way of work. Although the main goal of the company is to find and select good candidates, they are available from this kind of source only once per year. This problem may be solved through pre-contracts or through acceptance of candidates to practical work prior to graduation. There are two main problems related to candidate recruitment from faculties. At first this process is expensive and it takes a lot of effective work time of recruiters. Work plan must be done in advance; evidence of data has to be done by interviews with candidates, and lot of time has to be spent in educational institution. Secondly, recruiters sometimes do not have success due to the bad organization, weak interest of candidates and utilization of inadequate criteria when extricating potential candidates. Students often stay in companies where they have had practical work, if their skills, attributes and abilities meet needs of the job (Analoui, 2007, pp. 144).

### **4. Role of dissemination**

According to Heller (2008) higher educational institutions created added value by upgrading of knowledge, and for it to bring maximum to society it is necessary to develop strategic customer relationship management (CRM). In that way they would intensify their relationship with industry in order to shift from traditional role of educational institutions which is distribution of human talents to being a partner in deploying those talents. Educational institutions should enter more intense relationship with their environment. They need to identify what are their targets with whom they need to develop new and productive relationships. Among other goals of European programs like Tempus is intensification of dissemination processes. For that reason in this paper we have made an empirical research in Serbian financial industry. We have interviewed 15 out of 71 financial institutions which operate in Banking, Insurance and Leasing activities. These three sectors represent 99,8% of total capital of all financial institutions in Serbia, and 15 interviewed organizations represent 33% of capital and employ 35% of all employees in these three sectors. Questionnaire covered among others the question of recruitment methods. Table 1 shows the results of the research.

From the research we can see that most commonly used method of recruitment is by one of internal methods. If we look at external methods we need to look separately on different positions in organization. For management positions most commonly used method is employee referrals. For professionals and technicians most commonly used are employee referrals and postings on its web site. For administrative jobs organizations preferably use contacts with educational institutions and for manual labor most frequently employees are engaged by advertisements in newspapers. These results confirm that employee referrals and cooperation with educational institutions are most frequently used recruitment methods. It is interesting to compare these results with the results from the research made in USA which are shown in the table 2.

**Table 1. Recruitment sources and methods used by organizations in Serbian financial sector**

	<b>Management /Supervisors</b>	<b>Professional /Technical</b>	<b>Admini- stration</b>	<b>Manual labor</b>
Internally	53%	80%	40%	33%
Private employment agencies	40%	27%	0%	0%
Advertisements	13%	53%	40%	53%
<b>Employee referrals</b>	<b>53%</b>	<b>60%</b>	<b>47%</b>	<b>27%</b>
Postings on its Web site	27%	60%	40%	47%
Postings on commercial Web sites	20%	27%	20%	20%
<b>From educational institu- tions</b>	<b>7%</b>	<b>40%</b>	<b>60%</b>	<b>7%</b>
Permanent open postings	7%	20%	27%	27%
National employment agency	0%	7%	7%	0%

**Table 2. Recruitment sources and methods used by organizations in USA**

	<b>Management /Supervisors</b>	<b>Professional /Technical</b>	<b>Admini- stration</b>	<b>Manual labor</b>
Internally	95%	89%	94%	86%
Private employment agencies	60%	58%	28%	11%
Advertisements	50%	54%	6%	7%
<b>Employee referrals</b>	<b>64%</b>	<b>78%</b>	<b>87%</b>	<b>83%</b>
Postings on its Web site*	-	-	-	-
Postings on commercial Web sites*	-	-	-	-
<b>From educational institutions</b>	<b>45%</b>	<b>81%</b>	<b>24%</b>	<b>15%</b>
Permanent open postings	7%	17%	10%	8%
National employment agency	23%	38%	66%	68%
* No data				

**Source:** (Schuler et al 2009, pp. 225)

Compared to research made in Serbian financial sector in 245 companies from USA on which the research was conducted, there is significantly higher percentage of internally employed persons. This is due to a fact that analyzed companies are operating for much longer period in a stable organizational culture, unlike organizations in Serbian financial institutions which are in the period of last 9 years operating in rapidly changing environment. Looking at data about employee referrals and links with educational institutions, companies in USA also prefer those methods of external recruitment.

We must note that our empirical research covered only financial sector and in no case we should conclude that these findings apply to all industries. Financial sector has proven to be fastest developing sector in Serbian economy ( ubovi , Domazet 200 ).

As mentioned previously EU programs like Tempus look forward to enhance dissemination between educational institutions and industry. Educational institutions need to define targets for their relationships. Like other organizations, educational institutions tend to depend on timely information. Information is typically communicated poorly between educational institutions and industry. Focus of their activities is insufficiently adding value to the institution's partners. Effective internal communication between departments of the organization is essential to be able to give shape to an external focus on relationships. The educational institution will then be able to switch from being a 'distributor', mainly focusing on bringing its own product supply to the attention of its target groups, into an institution that takes on the role of 'partner' in its relationships. In practice in Serbia the program named "Buona" delivered in the period 2007-2009 has proven to establish close relationship between Belgrade Banking Academy on the one side and their target industry, being Serbian financial sector. Curriculum offered is created in cooperation with financial institutions, and the result from this cooperation may be viewed in the results of the empirical research we conducted. Word of mouth is becoming most important source for BBA in enrolling students, and on the other hand, graduated students employed mostly in financial institutions give the best references to their former colleagues during studies. In that way dissemination process became a virtual circle of information which is essential for development of both interested parties.

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