Discretion in Hiring

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Abstract

This paper examines whether and how firms should adopt job testing technologies. If hiring managers have other sources of information about a worker’s quality (e.g., interviews), then firms may want to allow managers to overrule test recommendations for candidates they believe show promise. Yet if firms are concerned that managers are biased or have misaligned objectives, it may be optimal to impose hiring rules even if this means ignoring potentially valuable soft information. We evaluate the staggered introduction of a job test across 130 locations of 15 firms employing service sector workers. We show that testing improves the match-quality of hired workers, as measured by their competed tenure, by about 25%. These gains largely come from managers who follow test recommendations, as opposed to those who frequently overrule the recommendation of the test. That is, when faced with similar applicant pools, managers who exercise discretion systematically perform worse than managers who follow test recommendations. In this setting, our results suggest that firms can improve productivity by taking advantage of the verifiability of test scores to limit managerial discretion.