

Employee Referral Programs

Organizations have a number of strategies they can use to attract talent: the Internet, print advertising, employment agencies, college recruiting, and job fairs, to name a few. Through the years, however, human resource executives have always agreed that employee referral programs (ERPs) have been the most effective way of finding new employees.

According to recent research, when recruiters and HR professionals were asked where they find their best candidates, the majority pointed to their employee referral program.

A recent CareerXroads study of large, high-profile companies found that referrals brought in 25 percent of new hires. In a recent Hudson survey, networking was the most common way workers (26 percent) and managers (33 percent) found their jobs. Among workers who earn \$75,000 to \$100,000 per year, the figure was 39 percent.

According to a recent Spherion Emerging Workforce Study, 58 percent of top HR executives said that referrals are the best way to recruit top talent. In another survey by HCI/ExecuNet, 62 percent of recruiters listed networking as their most effective means of finding senior managers.

In the face of growing worldwide skills shortages, global competition and tight budgets, organizations will need to activate their employee base as the main engine of their recruiting efforts.

The focus of this paper will be on the advantages of ERPs, tips for setting up a referral program, best practices, and common problems.

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Advantages of ERPs

Dr. John Sullivan, a well-known thought-leader in human resources and a management professor at San Francisco State University, states that his research shows candidates referred by employees accept positions 15 percent more often than candidates from the open market. Other positive results include:

- **Higher productivity.** A recent study by the MIT Sloan School of Management found employees recruited through ERPs had significantly higher performance than those hired through other channels. In addition, John Sullivan's research shows that referred hires perform at levels as high as 15 percent more than those from other sources.
- **Higher retention rates.** Providing the employee who referred them did not separate, the MIT study noted that employees who were recruited through ERPs remained longer than employees recruited through other sources.
- **Speed of hire.** Because employees begin the process of "selling" the company to the candidate before the interview, the company spends less time having to promote itself and the position, applicants require less rigorous screening and, therefore, advance through recruitment processes much more quickly.
- **Higher quality candidates.** Outstanding referrals reflect well on the referring employee, so employees are likely to try to find top candidates and avoid poor performers. Current employees also understand the company culture and look for employees who will "fit in."
- **Successful across-border recruiting.** ERPs are one of the few recruiting programs that can easily function across global borders. *The India Times* reports that Indian firms often hire as high as 40 percent of their new employees through referrals.
- **Cost effectiveness.** The Society for Human Resource Management (SHRM) is working to establish a standard set of metrics, but a recent survey conducted by SHRM and Referral Networks revealed that the cost-per-hire was much less expensive than paying for print ads, employment agencies or executive recruiters.

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Tips for Setting Up an ERP Program

If you want to avoid the common pitfalls that many ERPs face, here is a collection of tips.

- **Start at the top.** If senior management isn't committed to the success of the program, it won't work. Your organization's executives must continually reinforce the message that the strength of the company is within the quality of its workforce and that recruiting is everyone's responsibility.
- **Keep it simple.** Complex rules are the easiest way to kill participation in ERPs. If you want your program to work, make it easy to use. Many applicant tracking and recruiting systems offer this type of referral functionality.
- **Automate the process.** To save time and money, it's important to automate the program. Employees should be able to submit a referral with just a few clicks and keystrokes. Some ERP systems can automatically draw data from performance management systems and flag referrals that come in from high-performing employees. Other companies provide a portal to their careers page that takes employees to a separate listing of jobs seeking referrals.
- **Let everyone participate.** Don't limit referrals to certain employees, including your HR staff. As long as they aren't directly involved in hiring for a specific opening, you should benefit from their network of contacts. Also, don't limit referrals to certain positions.
- **Involve and reward outsiders.** Alumni are great sources for talent, as are vendors, customers and applicants who have turned down offers. How about your employees' friends and former business associates? They can all lead to top candidates; so involve them in the program and reward them for their efforts.
- **Promote constantly.** To create ongoing awareness, an ERP needs an initial kick-off phase, followed up with continuous promotion through as many channels as possible. Handbooks, newsletters, paycheck stuffers, weekly "hot job" e-mails and announcements of employees who have made referrals are great ways to keep momentum strong.
- **Educate.** In addition to letting employees know how to submit a referral, teach participants how to sell the company. Also be sure they know they are responsible for recruiting great people. Show how their activities will impact them and the success of the organization.
- **Reinforce team building.** Empower employees to play a more active role in building an exceptional team for them to work with. Help employees understand that they are the ones who will benefit from the referral program. Communicate that recruiting the best will help them learn and ultimately lead to a better chance at success.
- **Pay a decent bonus.** When determining the amount of the bonus, consider the level of the position and the fees you might have paid to an outside source. The average bonus for full-time hires is approximately \$1,200. But returns actually diminish as bonus amounts escalate. For example \$10,000 may be too much.

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- **Pay it fast.** When an employee is entitled to a finder's fee, pay it on time. Don't force employees to follow up on fees that they have earned.
- **Communicate frequently.** If you don't follow up with submittals, employees will stop participating. Every referral should be acknowledged with a response that lets the employee know the referral was received and appreciated. Not every referral will get an interview, but employees who make referrals may refrain from doing so in the future if they find their friends are getting strung along or ignored.
- **Rapid response.** Wait on passive candidates, and you will probably lose them quickly. If candidates don't hear from the company right away, they assume that nothing is happening. Whether you use e-mail, phone calls or mail, communicate with the referral, even if it doesn't result in an actual hire.
- **Set measurable goals.** Well-defined metrics that will quantify the performance of your ERP is crucial to its success. Be specific. The most important metric will be how your investment compares with other sourcing options, such as ad placements or search firms. Others, like quality of hire or cost per hire, can help you make informed comparisons of comparative ROI and allocate your budget dollars in the most effective places.

Don't be frustrated if your current ERP doesn't contain all of these features. Instead, look at them as a roadmap that you can use to begin your program.

Best Practices

If you include the basic elements of an ERP, you can expect 25 percent of your referrals to come from your program. According to Dr. John Sullivan, firms with best practices routinely attribute their ERPs with generating between 50 to 75 percent of all hires, and they use this measure, combined with employee participation rates, as a barometer of program health.

Use a Talent Scout Approach

Top performers do not make changes on a whim or on the basis of a phone call from a stranger. They need a lot of information. They need to be convinced that your company and the job are worth a move. That information needs to come from someone they know and trust.

Eli Lilly and Company acknowledges that simply communicating the existence of an ERP and then waiting for referrals to trickle in is simply not enough. Its strategy includes several elements to turn its employees into talent scouts. First, new hires are asked to identify top performers they know of in their fields. Next, current employees are regularly asked to target top performers in their fields. Then, they are assigned to reach out to these individuals. "Bring Your Rolodex" meetings are also held with executives to probe their networks and encourage them to build relationships with passive, but highly valued prospects.

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To foster the same recruiting approach, Massachusetts-based Biogen welcomes referrals for any job posted up to the VP level — even if the job is not vacant. “We want our employees to always have the idea of referring qualified candidates at the front of their mind,” says Keith W. Hall, the company’s director of HR.

Cisco Systems Inc., the California-based Internet pioneer, created a program called “Friends,” where prospects are paired up with Cisco employees of similar work backgrounds. Cisco employees act as an extended sales force, helping convince on-the-fence and passive candidates that the company is a viable (and friendly) employer. In any one quarter, 40 to 60 percent of all new Cisco hires now come from employee referrals.

Use Technology

Research has proven that one of the most cost-effective ways to recruit qualified candidates is to automate your ERP process. Companies have reported that the process also provides the added benefits of increasing retention and shortening the time it takes to get new hires up to speed.

Destination Hotels & Resorts had an ERP in place in 2004, but the process was entirely paper-based. Once the company automated the program with a new applicant tracking system (ATS) and careers Web page, by 2006, more than half of its new hires were a result of employee referrals. Employees can make referrals with a couple of clicks at their computers — whether they are at home, traveling, at a company site or in another country.

Google’s recruiting assessment tool relies on an algorithm that is designed to identify candidates who resemble the company’s existing top performers. First, employees are surveyed on a variety of characteristics, including teamwork, biographical information, past experiences and accomplishments. The candidates are also asked the same questions. Then, the traits are matched to the company’s different levels of performers as a way to predict the candidate’s performance.

Speedy Communication

After the referral is secured, the next critical phase is quick and frequent communication. Employees and referred candidates often have high expectations of the referral experience—and indeed they should, experts report.

Google’s ERP is designed to deliver a world-class candidate experience. The company responds to every referral within one week of submission. Its recruiting program is now geared to produce about 800 hires a month, a volume that could double the company’s size in a single year.

Quicken Loans created a program that is so effective, 61 percent of hires come from its ERP each month. All referrals are contacted by a program coordinator within 48 hours of submission. Referring team members are kept in the loop through a Web portal that allows them to track the status of referrals online from the time of the initial contact until the hire is completed.

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Develop a Marketing Campaign

Experts recommend that companies develop an advertising or marketing campaign for your ERP with a simple goal: to get people to do something you want. For example, some companies develop a slogan for the program, so employees remember what it is. Biogen markets its ERP under the name “SuperRecruiter” and uses a superhero as its mascot.

Cisco’s recruiters decided upon a sales and marketing philosophy for its ERP. It emphasizes the approach of selling a great product (the program) to its employees and reselling it to the candidates. Cisco advertised the Friends program in non-traditional venues: movie theaters, on the radio, at home and garden shows.

Use Non-monetary Rewards

Bonuses and prizes are important, but they are not the only reason employees make referrals. In a recent survey by Referral Networks, 42 percent of the employees said that they referred because they wanted to help a friend find a good job, and 24 percent said they wanted to help the company.

Computer hardware giant Intel Corp. uses a combination of monetary and non-monetary incentives. The prize was a choice between a \$1,000 travel voucher or a home entertainment system. As a result, 50 percent of the company’s new hires came from referrals.

The truth is that if your organization is a great place to work, you don’t have to do much to motivate your employees to participate. FirstMerit Bank set industry standards in referral rates without paying a bonus. Many companies that give away t-shirts, pins, plaques and other items, still realize great results. Other companies successfully use points-based systems that add up to prizes like vacation days or rafting adventures.

Common Problems

Although 58 percent of top HR executives say that referrals are the best way to recruit top talent, only 52 percent of workers said they would refer friends to work for their company, according to the 2005 Spherion Emerging Workforce Study.

Referral Networks’ survey found that the top reasons employees don’t refer are: they don’t know suitable candidates (78 percent), are afraid the referral will reflect badly on them if the candidate doesn’t work out they (42 percent) and the process is too complicated (21 percent).

While employee referrals help a company fill immediate personnel needs, the MIT Sloan School of Management study indicated that unless these programs are properly managed, the long-term benefits are less positive.

Generally, ERPs begin to experience performance declines six months after its initial launch. If these problems are not addressed within a year, they cause serious damage to your program. Luckily, many actions can be taken to re-energize the program if it gets into trouble.

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Some of the most common challenges for include:

- Lack of monitoring and evaluation of program
- Slow response time and poor treatment of referrals and “referrer”
- Nonexistent, delayed or low referral bonuses
- The likelihood that the new hire will leave if the person who did the referring leaves
- Stale marketing and PR materials
- Disputes over who “gets credit” for duplicate referrals
- Ignored or underutilized referrals
- Lack of communication to referee
- Lack of education on how to sell the firm
- Underutilized non-monetary recognitions
- Lack of focus on retaining people once they are hired
- Recognition not provided to employees with unsuccessful referrals
- Lack of requirement that referee have first-hand knowledge of referral
- Lack of metrics to quantify program’s performance

Conclusion

ERPs alone won’t satisfy all of a company’s recruiting needs. Top-level executive jobs, for example, are rarely filled through referrals.

Once it has been launched, it’s important to continually monitor the program to ensure that it meets its goals and objectives. While the concept behind ERPs is a simple one, the programs themselves must be managed well if the goal is to produce anything more than mediocre results.

Investing in your ERP consistently generates one of the highest returns on investment in terms of both cost and quality per hire. You can readily expect to get about 25 percent of your hires from employee referrals.

With a little more effort, your program has the potential to generate 50 to 75 percent of your hires. If you want a world class program, start at the design phase and make sure that the design has world-class features.

If you have an ERP that is producing less than 20 percent of hires, contact your NAS representative for ideas on how you can re-energize your company’s ERP.

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