

EMPLOYEE REFERRAL PROGRAMS

More than eight of 10 people (85 percent) find jobs by referral or direct contact with a prospective employer, according to figures from the Bureau of Labor Statistics, and companies with recruitment-by-referral programs estimate that as much as 25 percent of their hiring is through referrals. Recruitment-by-referral programs are relatively easy to administer, especially when referrals are tracked by computer; directly draw on one of employers' strongest recruitment resources - their own employees, who can provide the kind of detailed information not usually obtained from employment references; and help reduce costs for advertising, job fairs, and other activities associated with more traditional recruitment efforts. They generally require less time and effort than some other forms of recruitment, which can draw in large numbers of unqualified applicants who must be weeded out. In addition, they can be used successfully to attract seasonal hires, such as qualified students for summer positions.

Program Advantages

Employee referrals constitute a source of quality candidates who can be hired at a fraction of the costs charged by employment agencies or search firms. Surveys such as those conducted by the Employment Management Association and the BNA *Personnel Policies Forum* surveys, as well as anecdotal evidence, confirm the popularity of the approach and its cost-effectiveness.

For employers that have especially hard-to-fill positions or large numbers of vacancies, employee referral programs present a number of advantages over other recruitment methods:

- Program expenditures, including the costs for promotional materials and awards, are relatively low (compared, for example, to the fees charged by employment agencies and search firms; these can be as much as 30 percent of the new-hire's base salary).
- The caliber of referrals is high, sometimes higher than the qualification level of candidates recruited by other means, possibly because employees are conscious of the company's standards, aware of its needs for specific skills, and want their recommendations to reflect well upon themselves.
- Candidates typically do not need to relocate, because employees usually refer friends or colleagues who live or work in the same area and with whom they have frequent contact.
- If referring employees have done their job while serving as spokespersons for their employer, the individuals they recommend are already "sold" on working for the company, which means that they are more likely to accept job offers. Increasing the percentage of hires-to-interviews is one way employers can keep hiring costs low.
- Referring employees frequently mentor their referrals, helping them to "hit the ground running."
- Many organizations report that referrals help reduce turnover, primarily because

employees, while seeking qualified candidates to refer, reconsider their own talents and abilities and "re-sell" themselves on their employers. During its referral promotion, Walt Disney Imagineering capitalized on this fact by creating a brochure whose copy urged employees to reassess why they enjoy working for WDI.

- Employers with referral incentive and promotion programs also report that employee referrals appear to be more loyal than new-hires recruited by other methods. This may be because the referrals share the new employer with a friend or a colleague who can help orient them to and familiarize them with the company's culture and operating methods. The easier it is for new-hires to fit in, the happier they tend to be.
- Employee morale and motivation often improve. This may be because referral incentive and promotion programs help employees feel they are appreciated, as though they are partners with the company. Also, many companies have devised such imaginative programs that they make it fun to come to work and get involved.
- Team work may be fostered, because employees are comfortable working with those they know well. The more cohesive the work unit, the better the work environment becomes.
- Referral programs facilitate personal contact with employer representatives, which can help build a positive company image. The more positive referring employees are about their employer, the more likely it is that word will spread that the organization is a good place to work.

Program Limitations/Problems

Employee referral programs are not problem-free, however. Sometimes, well-intended programs backfire, creating hard feelings among workers whose friends are not accepted for employment. If workers are allowed to refer relatives who are not hired, nepotism claims may arise. Applicants may be reluctant to indicate who referred them or, if not hired, may charge that a referring employee provided disparaging information, a situation that could leave the company vulnerable to a defamation claim. Though not so likely, because the referring employee is putting his or her own reputation on the line, negative but important facts about a referral may not become known, which could lead to a negligent hiring lawsuit if a referral were hired and then committed a crime. In addition, too heavy a reliance on employee referrals can simply reinforce the demographic makeup of the current employee population, resulting in a disproportionately low representation of women or other protected groups and presenting problems for companies trying to build a more diverse but balanced workforce. Moreover, referral programs typically are not designed to reach specific groups of applicants or to achieve predetermined recruiting goals, although they can be goal-oriented.

Tips To Avoid Problems

To guard against problems in design, implementation, or administration, employers should establish and communicate a policy on employee referrals that makes clear that:

- Employees may not refer relatives. Referrals of family members should be handled under a separate policy. (See the section on employment of relatives below.)
- Candidates must state the name of the referring employee (space may be included on the application form for this purpose or the referring worker may be identified during the interview stage), and the referring employee must complete a written referral card or form.
- Referrals must meet the stated qualifications for the eligible job openings and will be required, the same as all other applicants, to demonstrate their skills or aptitude to perform the particular job for which they've been referred. Employees should be informed about the experience, education, licenses, skills, or other qualifications referrals must have, and they should have access to well-written, up-to-date job descriptions and a list of the titles of all jobs for which there are openings. (This kind of information can be made available electronically via an intranet, or it can be printed on referral cards or included in newsletter articles or program memoranda.)
- All referrals will receive equal consideration and will be processed in the same way. Brochures and other program literature should emphasize that all referrals will be considered without regard to race, color, religion, sex, marital status, national origin or citizenship status, or disability. (While referral of minorities should be encouraged, workers should not be told to refer only minorities. According to employment law experts, excluding nonminorities from a referral program can expose an employer to the same kind of legal problems that arise when minorities are excluded from other recruitment efforts.)
- Employees must not make commitments or oral promises of employment to persons they refer.
- The referral program is viewed as a supplement to, not a replacement for, regular recruitment initiatives that produce a continuous flow of applicants.

In addition, employers always should try to provide feedback to employees whose referrals are not accepted to help them better understand the company's selection criteria.

Designing Effective Campaigns for Program Kickoffs

Creating a successful employee referral incentive program requires more than splashy prize giveaways; gimmicks aren't really necessary to encourage participation. As with most company programs, however, the involvement and support of top management and hiring managers are essential. Such involvement sends a message to employees that the program is important, and can help generate enthusiasm, stimulate cooperation, and increase participation.

Employers that have had success with referral campaigns, management consultants, and advertising agencies that have helped create successful programs offer employers this advice:

» Plan ahead to avoid administrative problems. Don't wait until there's an opening to ask for referrals; keep asking.

» Supply all employees with business cards and encourage them to pass the cards out to potential recruits. Include the employee's telephone number and the number of the HR department.

» Keep the program simple, without a lot of paperwork, and make it fun.

» Identify for employees the information that must accompany each referral. Referrals should include a resume, a completed application form, and a completed referral program card. Resumes and applications should be sorted according to positions for which each candidate may qualify (separate resumes and applications should be provided if a candidate qualifies for more than one opening). Referral cards should be maintained by the employment office and processed for referral bonuses or awards at the appropriate time.

» Try to not restrict referrals to certain employee groups or job categories. Allowing everyone to participate increases the chances of obtaining a broader pool of quality candidates.

» Create the program around a campaign theme that can be promoted in employee and retiree publications, envelope stuffers, bulletin board notices, and posters. Communicate program information on letterhead specially printed with the theme and logo.

» Announce the campaign over the company's public address system or at a party or some other event likely to draw a big crowd. Schedule a simultaneous direct mailing to employees' and retirees' homes. Thereafter, sustain interest in the program through continuous and heavy publicity (articles in employee newsletters, new and colorful poster designs, interim contests leading to a grand prize drawing, premiums to increase motivation, flyers, payroll "stuffers," etc.). For example, after announcing its "Chase the Dragon" program, Walt Disney Imagineering distributed follow-up postcards, which featured the same graphics and slogan as its printed brochure; the postcards restated the program deadline, the prize, and what employees had to do all in a few "reminder" lines.

» Consider producing and distributing a videotape to all facilities participating in the program, along with appealing printed brochures that include an explanation of the program's purpose and guidelines or referral criteria, as well as copies of referral forms or referral cards, which some employers use to flag applications and resumes. Disney's "Chase the Dragon" brochures, for example, included some pointers for "selling" recruits on the company.

» Supplement promotional materials with job postings that let employees know which openings are eligible for referral prizes. Distinguish these jobs from non-eligible positions by communicating the information on specially printed letterhead with the program's theme and logo.

» Follow up every referral with a response card that lets the employee know that the program administrator has received and appreciates the recommendation. Acknowledgments also

should indicate that the employee has been entered into appropriate prize pools.

» Offer effective premiums and prizes, and stimulate interest by displaying the awards. While budgets are always a consideration, prizes should reflect, to the extent possible, the level of the position, the availability of individuals to fill the position, and, in particular, the worth of the hire to the company (compared to fees that would be paid to an employment agency or headhunter or for ads in the local paper). Remember, employees are putting their own professional reputations on the line when they make referrals.

Prizes also should reflect an understanding of the corporate culture; they should be designed to generate good-will and build morale. Offering a number of prizes, in addition to a grand prize, can encourage participation by giving more employees an opportunity to win. Whenever a new referral campaign begins, prizes should be changed.

» Conduct an ongoing program, setting and publicizing a deadline only for specific recruitment efforts. Most campaigns last from six months to nine months, sometimes a year-long enough to adequately evaluate new-hires and determine whether they'll be retained, but not so long that enthusiasm and participation wane. Some employers, typically companies with seasonal positions, sponsor programs only during "critical need" periods; others operate their programs year-round but give special prizes during periods when the need for hires is greatest.

» Always let both referrers and those they have recommended for jobs know the outcome of an employment decision. Issue periodic updates to announce the progress of the program and prize winners' names. A letter of thanks should be sent by management to all program participants and, at the end of the program, some form of public recognition (for example, a feature article in the employee newsletter, or a luncheon) should be given to this group and those hired as a result of their referrals.

Companies that don't want to establish formal programs can still obtain referrals by asking new-hires at time of orientation to provide the names of any friends or colleagues in the same industry or profession who may be interested in a career move.

Sample Recruitment-by-Referral Policies

The following examples of recruitment-by-referral policies are from employee handbooks and procedures manuals provided to BNA by employer-members of BNA's *Personnel Policies Forum*. The first example is from a health services organization; the second from a manufacturer; the third from a services company; the fourth from a law firm; and the fifth from a manufacturer.

Example 1:

"Policy Statement: It is the policy of the Company to encourage and reward employees for identifying other talented employees for open positions.

"Employees know the environment/culture of our Company and can be helpful in articulating it to potential employees. Our employees are our best resource for identifying talent like themselves, with similar work ethics, drive, and commitment, for career opportunities with the Company.

"Guidelines: Candidates must identify during the interview process who referred them. Once an offer has been extended, no referral requests will be honored.

"A referral request must be documented on the back or bottom of an application or resume.

"Hiring managers may not receive referral credit for employees they hire into their department(s) or for hires made within the Company where they may have indirect influence on the selection process.

"Employees will receive a \$50.00 referral bonus for referring candidates that are hired into regular full-time or part-time positions.

"Referred hires must remain employed for a minimum of six months and have successfully completed probation before a referral bonus is paid."

Example 2:

"Any full-time regular employee is eligible for an award of \$500 for referring a candidate for full-time regular employment with [Company Name]. After the candidate's 90th [day] of employment, the referring employee will be awarded \$500 in the next payroll. All proper procedures for referring the candidate must be followed in order to receive the award.

"Any full-time temporary employee is eligible for an award of \$100 for referring a candidate for full-time employment with [Company Name]. After the candidate's 90th [day] of employment, the referring employee will be awarded \$100 in the next payroll. All proper procedures for referring the candidate must be followed in order to receive the award."

Example 3:

"If you know someone who shares your enthusiasm, works well with people, and will enjoy providing exceptional services to our guests, you may want to make an "employee referral." If you make a referral and your referral is hired and remains employed for a specified time period (refer to program rules), you are then eligible to receive "award points." Hourly employees can make referrals and earn award points for a referral to any position in the Company. The amount of award points you can earn is determined by your referral's employment status (i.e., full-time, part-time, etc.). Award points can be combined with other point programs, such as service award points and points you earn for achieving service excellence. All points are redeemable for gift items. Your manager has some literature for you to

read which tells you how to record your referral and when you are eligible to receive award points."

Example 4:

"[Company Name] recognizes that its greatest assets are the employees who make the Firm a success. In order to facilitate hiring of conscientious and highly skilled personnel, the Firm welcomes current employees to recommend skilled candidates for positions with [Company Name]. A bonus of \$250.00 (less tax) is paid to any employee (excluding Department Heads) who refers a candidate to the Firm who is hired for a permanent, full-time position and remains in the Firm's employ for at least three months. If an employee refers a permanent, full-time secretary who stays for a minimum of six months, the bonus is increased to \$500.00 (less tax). Since this policy is in the best interest of all [Company Name] employees, only applicants whose character and abilities are known and whose work habits are consistent with the high standards of the Firm should be referred. Relatives cannot be considered."

Example 5:

"Policy: To encourage and reward employees for referring qualified candidates, [Company Name] provides referral bonuses for select, difficult-to-fill positions.

"Implementation-Eligibility: Regular, full-time and part-time status employees are eligible to receive this benefit.

"As staffing is considered an inherent part of their jobs, Human Resources personnel and managers are ineligible for referral bonuses.

"Individuals must be hired for regular, full-time slots, be on staff for six months, and performing satisfactorily before referring employees will receive their bonuses. Further, individuals who made referrals must be employed by [Company Name] at the time bonuses are due.

"Benefit: The gross amount of bonuses [is] contingent upon the levels of positions. [The company lists four levels: At Level I, "Extremely Difficult," the bonus is \$500; at Level II, "Moderately Difficult," \$300 is awarded for a successful bonus; at Level III, "Difficult," the bonus is \$100. No monetary award is offered for a Level IV, "Not Difficult," referral.]

"Levels will be assigned by Senior Vice Presidents. When it is possible [for positions to be created] for specific candidates, requests for bonus consideration may be submitted to Senior Vice Presidents, who make final determinations on bonus eligibility. Bonus eligibility will be noted on internal job postings, if any.

"Bonuses are subject to local, state, and federal withholding taxes. The above-listed bonus amounts are quoted on a pre-tax basis."

Examples of Company Practices

Referrals from current employees often yield a promising group of candidates, and many employers actively encourage their workers to identify friends or acquaintances who are seeking employment. As the following examples show, some organizations offer special incentives, such as cash awards, savings bonds, or certificates for gift items, especially for referrals for hard-to-fill positions, because these motivate employees to "sell" their company to qualified individuals. Others create imaginative one-time promotions or ongoing programs that not only make recruiting lively, but also boost employee morale and reduce costs per hire.

Example: Adventist HealthCare/Mid-Atlantic, Rockville, Md., offers \$1,000 rewards to employees who find experienced information systems personnel (for example, network engineers, financial and clinical program analysts, systems administrators for telecommunications). All AHC employees, other than administrative officers, HR employees, and department heads, are eligible to participate in the recruitment incentive program.

The program's rules require a prospective applicant to give the referring employee's name and department to the Employment Center recruiter during the candidate's interview. If the applicant is hired for a full-time job, the referring employee receives \$500 at time of hire; if the new-hire successfully completes the required 90 days of "trial" employment, the employee receives another \$500.

A similar incentive was offered in 1996 to recruit experienced pediatric intensive care registered nurses. Any AHM worker whose referral was hired for a full-time position received \$1,000; \$500, if the hire filled a regular part-time job.

Example: Rockland Trust, Rockland, Mass., introduced a revamped employee referral program in March 1996. Under the revised program, which was described on blue and white cards distributed to the workforce, all employees, except members of HR with recruiting responsibilities, senior management, and new-hires' immediate supervisors, are eligible for cash awards. A prospective employee must include the referring worker's name on the company's application form. If the candidate is hired and successfully completes 45 continuous calendar days of employment, the referring employee receives a cash award of \$200, if the position is within grades 1 through 5, or \$500, if the job is a grade 6 or higher position. (Referrals for temporary positions are not covered by the program.) To collect the award, the employee must send a written request to HR.

Example: Doral Hotels & Resort Management Corp., New York, N.Y., literally makes a game of employee referrals. Using board game concepts, the company created an "Employment Pursuit" program consisting of three components:

- ***The Objective*** - The program's objective is to identify qualified employees for job vacancies.
- ***A "Start of Play" Period*** - Employees are notified about openings in the company

through job postings in the cafeteria.

- ***A "Continuation of Play" Period*** - Every employee who has referred a candidate who is hired receives a cash bonus and is eligible for other awards, depending on how long the hire remains with the company. The more hires referred, the greater the incentive is to refer still more. ("The Referral Game," *Human Resource Executive*, Vol. 3, No.7, 747 Dresher Rd., Horsham, Pa. 19044)

Example: Harris Bank, Chicago, Ill., offers \$200 awards for a successful referral hired into an entry-level position. It provides bonuses of up to \$1,400 for referrals for higher-level jobs. Awards are paid out after referred employees have completed 90 days of employment.

Example: Looking for a new way to entice recruits to join the firm, Codex Corp. implemented a year-long "Treasure Hunt," an employee referral service designed by a Boston-based advertising executive. To kick off the program, the company mounted a poster in the main lobby, where brochures explaining the program also were made available, then placed treasure chest boxes in the lobbies of its seven facilities. Next, it hid throughout the buildings 1,000 skeleton keys, each with an attached tag that read, "If you find the key that opens the lock to the treasure chest in the lobby, the prize inside is yours." The challenge was to find the one key that fit each lock. Employees searched high and low, finding keys dangling from lamps, telephone cords, and plants. The highly motivating program - it resulted in 41 percent of the firm's hires for the year - helped boost morale and was deemed a great success. It also only cost the equivalent of employment agency fees for two exempt hires - approximately \$20,000. ("The Better Side of Advertising," *Workforce*, Vol. 70, No.2, 1991)

Example: Pitney Bowes employees who participate in the company's "Job Opportunities Employee Referral" program receive cash and travel bonuses as incentives for recommending individuals for specific positions. Management regularly advises workers of job openings and pays a \$1,000 bonus for each referral who is hired. Bonus recipients also are eligible, in a random drawing, for a vacation for two in such locales as Hawaii, the Caribbean, or England. A minimum of 10 referrals must be hired each quarter for a trip to be awarded; if fewer than 10 are hired, bonus recipients' names remain in the vacation pool for possible selection in the next quarter. Launched in the early 1970s and initially restricted to recruitment for technical jobs, the program currently includes all open positions.