

To Err is Human, to Refer is Divine: the case for Referral Schemes

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If concerns over recruitment are keeping you awake at night, you're certainly not alone. 85% of UK companies had difficulty recruiting in the financial year April 03 – April 04 and 47% see further difficulties on the horizon.¹ At the more senior level, one in five employers in the private sector advertised vacancies for which they received no applications.² These concerns are only likely to be exacerbated as economic growth squeezes HR efforts between the need to recruit more staff to handle the boom as well as the imperative to retain those staff who might be tempted away by the increasing numbers of attractive opportunities elsewhere.

To help ease the pressure, ask yourself if you are really making best use of the recruitment sources available to you. A rudimentary analysis of supply channels you currently use will probably generate a list of the usual suspects: Recruitment Agencies, jobboards, corporate website, paper-based media. But have you considered widening your horizons to include the humble Referral Scheme?

Some benefits

At a very basic level, the set-up costs can be surprisingly low. You already have a pool of potential recruiters: all you need to do is look at your staff list. The basic rules of networking and social interaction (think along the lines of the Kevin Bacon game³) indicate that even a workforce of limited size will have a potentially large number of contacts outside your organisation. And you might just be surprised by who your staff know.

Once you factor in the additional costs inherent in other recruitment methods, Referral Schemes make for an even more attractive proposition. Recruitment Agency and Search and Select fees often start at around 15% and then become much higher for more senior positions, whereas the bounty paid for a successful referral is set by you. What's more, this bounty could even be non-monetary - a few suggestions are given later in this article.

However, arguably the biggest benefit to be gained is the 'insider knowledge' of the company environment the referred applicant is more likely to have. The 'cultural fit' is likely to be closer. This is in stark contrast to the jobboard or corporate website applicant who, even after research, will have a comparatively limited knowledge of your organisation.

Once fully onboard the new hire has a ready-made informal support network via the referrer should they encounter teething problems. This may help to explain why referred applicants tend to acclimatise and become productive more quickly than the average of seven months for their non-referred colleagues.⁴ Any attempt to lessen the risk of hiring the wrong applicant (estimated to cost the UK economy a collective £12 billion per year⁵) has to be welcomed.

¹ Chartered Institute of Personnel and Development, June 2004, 'Recruitment, retention and turnover 2004: A survey of the UK and Ireland', retrieved September 2004

² Chartered Institute of Personnel and Development, Summer 2004, 'Quarterly HR trends and indicators', retrieved August 2004

³ 'Six Degrees of Kevin Bacon' is a game where players attempt to link any given actor to Kevin Bacon in a number of steps via films they have appeared in. See http://en.wikipedia.org/wiki/Six_Degrees_of_Kevin_Bacon for more details if you're intrigued.

⁴ 'Getting the Edge in the New People Economy', Future Foundation and SHL, 2004

⁵ Ibid

The 'culture club' and diversity

While some level of cultural fit can be a distinct advantage, beware of recruiting in your own image, or recruiting into the 'culture club' as the phenomenon has been labelled.⁶ Recruiting exclusively via your existing workforce's network may do little to introduce new blood and fresh ideas to your organisation, particularly if a large proportion of these contacts come from the same company. For this reason, Referral Schemes should form part of a recruitment strategy rather than the whole strategy itself.

Closely related is the thorny issue of diversity. The simple fact is that it is unlikely that a Referral Scheme will produce applicants from diverse backgrounds. However, rewards for successful referrals can be weighted to be more lucrative for diversity 'gaps' that your organisation needs to fill. If this is a route you choose to take, you should try to run a Referral Scheme alongside other diversity initiatives so that your recruitment strategy is as inclusive as possible.⁷ To avoid messy accusations of positive discrimination you should also ensure that your referred applicants go through the same interview and assessment process as everyone else – all your applicants, regardless of source, should have equality of opportunity.

Adding value to your Referral Scheme

Having got this far, it would seem relatively straightforward to initiate a Referral Scheme – simply ask your employees to refer their friends to your Recruitment Team. And at a very basic level it can be as simple as this. But by thinking a little more laterally you can add tremendous value to the results generated by your Referral Scheme.

1) Write the rulebook

To avoid unnecessary future complications you should set the rules right at the outset. Who can make referrals? What happens if an employee bypasses the process? Should there be a formalised appeals procedure? Should employees be able to split bounties for successful hires? How do you discourage your staff from 'second income syndrome' where they spend more time sourcing referrals than on their day jobs? If your organisation straddles national boundaries and you adapt bonus levels according to local income, what happens when a referral is made across the borders?

You should also make it clear whether you are paying a bonus for the referral or the hire – a subtle difference which requires further explanation. From your viewpoint, you will be keen to assess the performance of the referred applicant before parting with the lion's share of the bonus. From the referrer's perspective, it could be argued that once the referred applicant starts work the referrer's job is done and that a bonus should be awarded in its entirety regardless of the on-the-job performance of the new hire. To avoid confusion you should define clearly whether you mean to penalise the referrer if your Recruitment Team, having put the referred applicant through the interview and assessment process and made a decision to offer a job, have taken on the wrong person.⁸

2) Build an award-winning process

Make it easy for referrers to find out about open vacancies, including those staff based out of the office, including those on maternity. Even more importantly, make the process of submitting referrals as easy and painless as possible.

⁶ Gaffey, K., November 2002, 'Employee Referrals or Recruiting Interrupted?', *erdaily*, retrieved September 2004

⁷ Sullivan, J., March 2004, 'Increasing Diversity Hires by Modifying your Employee Referral Program', *erdaily*, retrieved September 2004

⁸ Adamsky, H., August 2003, 'Is Your Employee Referral Program Acting as a Disincentive?', *erdaily*, retrieved August 2004

However, if you decide that you will allow referrals to be made 'generically' (i.e. not for specific vacancies) bear in mind that your Recruitment Team will need to spend considerably longer matching referrals to open vacancies. You may also want to investigate the implications of 'push' versus 'pull' at your organisation. Some firms have recently highlighted potential problems in referrers simply submitting CVs directly in to HR (the 'push') as it is possible that no consent will have been sought from the referred applicant. However, as long as you can direct your referrals through a 'declaration' phase where they can physically authorise you to process their data (the 'Send to a Friend' feature on many workflow systems) then you should be able to sidestep this issue.

You should also ensure that you have some system of tracking the referral process. This will give you an idea of the quality of referred applicants and their success rate (and therefore a rough Return on Investment figure) as well as ensuring that no two referrers claim the same bounty. Having a robust process in place will also help your Recruitment Team to contact referred applicants quickly, even if just to acknowledge receipt of their application. Keeping both referred applicants and referrers completely up-to-date is a key objective if you want to maximise positive feedback and spread the message among your referrer pool that you value the efforts they have made. A spreadsheet may be adequate for small companies, but larger organisations may need to look at more adaptable system solutions.

3) Widen your horizons

Is there any reason why your Referral Scheme should be open only to current company employees? Although you may want to vet any vacancies leaving the 'boundaries' of your organisation, you might be surprised at the response from suppliers, partners, third-party contract staff and those who have retired from your organisation, particularly for vacancies in their areas of expertise. Additionally, you could even consider opening up the scheme to current applicants, as long as you are able to reassure them that making referrals will not harm their own prospects.

Should you decide to open up your Referral Scheme in this way, however, do take the time to investigate any tax implications (to your organisation as well as the referrer) of paying bonuses to those not currently on your payroll.

4) Think about what makes referrers tick

A common misconception is that Referral Schemes have to be expensive because bounties for successful referrals must be financial (and large). While it would be foolish to underestimate the lure of the pound signs, there are other options open to you if you think creatively and try to understand the motivations of your workforce. Sporting enthusiasts may be more driven by tickets to a high profile sporting event. Those with substantial commitments outside work might prefer the option to claim extra paid holiday. You could potentially even make use of company assets – how about an all expenses paid luxury weekend in the Chief Executive's company penthouse suite? Be imaginative and you may find Referral Scheme bounties cheaper than you might think.

5) Build a Marketing Plan

A Referral Scheme should be marketed in the same way as any other product or service you provide as an organisation. Although specific vacancy needs will vary over time the general initiative should be ongoing, with marketing being continuous rather than a 'one-off'.

The marketing drive should be highly visible. Successful recent initiatives have included messages in payslips and supplier invoices. Going a creative step further, and with a real intention to create a 'buzz', one organisation recently ran an

initiative whereby a numbered beach ball was given out to each successful referrer to display in a prominent position on their desk. At the end of the quarter each number was entered into a prize draw for a holiday. Result: a highly visible incentive at minimal extra cost.

6) Align your Referral Scheme to strategic recruitment objectives

You may consider offering different rewards for different types and level of referral. For example, if your organisation is beginning to source Customer Service Representatives for a new call centre, you may decide to offer a higher bonus for these types of hire. Be sure to keep your pool of referrers aware of any updates. A decent system tracking the Referral Scheme may allow you to build in quite complex eligibility rules allowing you to tailor the programme to your exact strategic needs.

While UK firms seem open to the possibilities of recruiting via existing employees (87% have a policy of advertising all positions internally), only a third currently operate a Referral Scheme.⁹ Compare this to estimates that between 25% and 60% of *all* US vacancies were filled by referrals during the last boom.¹⁰ And should the economy take a turn for the worse, you can be pretty sure that these self-same US companies will be relying even more heavily on such a proven source.

With Referral Schemes, like so much else in business, where the US leads the UK inevitably ends up following. As long as you take into account the potential drawbacks there seems no better time to take strategic advantage from such a simple, cheap and effective recruitment supply channel.

Sources

The following sources are suggested for further reading:

Chartered Institute of Personnel and Development (www.cipd.co.uk)

The Future Foundation (www.futurefoundation.net)

SHL (www.shl.com)

Personnel Today (www.personneltoday.com)

Electronic Recruiting Exchange (www.erexchange.com)

HR.com (www.hr.com)

HRZone (www.hrzone.co.uk)

iLogos Research (www.ilogosresearch.com)

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⁹ Chartered Institute of Personnel and Development, June 2004, 'Recruitment, retention and turnover 2004: A survey of the UK and Ireland', retrieved September 2004

¹⁰ Goss, J., 2004, 'It's the process, stupid... At least when it comes to successful employee referral programs', HR.com, retrieved August 2004