

SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Research



Employee Referral Programs



REFERRAL NETWORKS

Excellence Within Reach

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About This Report

The following report analyzes the results of the SHRM®/Referral Networks 2001 Employee Referral Program Survey. The survey was faxed to 1,288 randomly selected SHRM members, and an Internet link was e-mailed to 1,487 randomly selected SHRM members. The results in this report are based on the responses of a total of 586 HR professionals, which represents an overall response rate of 21% (301 surveys were returned by fax, and 281 were completed online).

The demographics of the respondents' industries were compared to the entire SHRM membership. The comparison demonstrated that survey respondents were representative of the overall SHRM membership. In fact, the two groups appear to exactly mirror each other.

Responses via fax were compared to responses via the Internet link. The data collected by the two different methodologies were quite similar; however, a few differences emerged. A brief section at the end of this report highlights these differences.

This survey report contains numerous tables and charts that capture the participants' responses. Where appropriate, statistical significance testing

was performed. Results of these tests follow the descriptive report. In addition, a copy of the survey questionnaire and White Papers regarding employee referrals in the workplace can be found at the end of this report.

The Society for Human Resource Management (SHRM) is the leading voice of the human resource profession. SHRM provides education and information services, conferences and seminars, government and media representation, online services and publications to more than 160,000 professional and student members throughout the world. The Society, the world's largest human resource management association, is a founding member of the North American Human Resource Management Association and the World Federation of Personnel Management Associations (WFPMA).

Referral Networks manages and hosts online employee referral programs for *Fortune* 500 companies. Referral Networks offers a web-based application that automates the entire process of employee referrals and is designed to enhance and optimize new and existing programs for employee referrals. For more information, visit www.referralnetworks.com.

A Message from Referral Networks, Inc.

Whether the economy is in an economic boom or has taken a downturn as recently, companies continue to have recruiting needs. In a down economy, it becomes increasingly important for companies to manage their recruiting budgets while still filling these needs. Referral Networks is dedicated to providing a world-class recruiting solution that helps companies recruit the best-qualified candidates at the lowest cost.

Employee Referrals Work

Employee referrals have been found to be effective and many organizations use this method in some formal or informal way. Some of the benefits of referrals: (1) lower your cost per hire, especially versus contingency and executive search agencies, (2) provide a steady stream of high caliber candidates who are often those hard to find, “passive” job seekers, (3) increase employee retention by twenty-five percent, (4) boost overall employee morale, and (5) foster positive communication amongst employees as well as to the outside world.

The Power of Viral Marketing and the Internet

Viral marketing enables companies to take advantage of what social scientists call the small world theory, which states that despite our size and perceived sense of isolation, we are all very much connected in a tightly, inter-woven web. The trick in recruiting is to find a way to tap into this “small world” so you can have access to a broad range of qualified candidates.

In many companies, a large part of the recruiting budget goes to agency fees that are typically 20-33% of the new employee’s annual salary. The reason agencies can charge such hefty rates is because of their ability to create a “small world” and to leverage these small world ties to network and source candidates that are not available through other, less expensive means.

While an agency’s ability to network is strong, by using viral marketing, employee networks can be harnessed to be equally effective. A conservative estimate among social scientists is that most people have about 300 friends and acquaintances. Those three hundred people each know three hundred people for a total of 90,000 people who are friends of friends of employees. Referral Networks leverages the Internet to help tap into these extensive networks and thereby reach a large pool of qualified candidates.

For More Information:

Referral Networks manages and hosts online employee referral programs. The company’s best-in-breed solution can help run an employee referral program that generates more participation, yields better candidates and is easy to administer and manage. Referral Networks’ hosted service requires no IT resources, integrates easily with other leading HRIS systems and is scalable to handle even the largest corporate recruiting programs.

For more information about Referral Networks, call us at 1 (888) 777-5636, or visit our website at www.referralnetworks.com.

Summary Findings

Nearly two-thirds of respondents said that their organizations have some type of employee referral program for both exempt and nonexempt positions.

Respondents of organizations with an employee referral program indicated that incentives are offered for referrals that result in new hires. For the most part, organizations award the same incentives and rewards for both exempt and nonexempt positions. Most often these are financial awards. In most cases, the amount of the award is predetermined and distributed after a required tenure period of the new hire.

Slightly more than two-fifths agreed or strongly agreed that their organizations place enough emphasis on the employee referral program. Slightly less than one-half of respondents indicated that their organizations promoted or extremely promoted the employee referral program.

In 2000, an average of 57 referrals for exempt positions were presented to HR, an average of 16 interviews were granted and an average of 15 hires were made. These hires represented an average of 18% of the overall new hires in 2000 and were referred by an average of 10% of the employees from the respondents' organizations. Overall, the cost of referral incentives and rewards of the respondents' organizations averaged \$12,000. On average, the cost of each exempt hire made through the employee referral program was about \$896 in incentives and rewards.

For nonexempt positions in 2000, an average of 73 referrals were presented to HR, an average of 27 interviews were granted and an average of 27 hires were made. These hires represented an average of 24% of the overall new hires in 2000 and were referred by an average of 12% of the employees from the respondents' organizations. Overall, the cost of referral incentives and rewards of the respondents' organiza-

tions averaged \$9,000. On average, the cost of each nonexempt hire made through the employee referral programs was about \$399 in incentives and rewards.

Organizations most frequently use employee orientation to promote the referral program, according to the respondents. Other methods used were providing explanations of the program in the employee handbook; interoffice mailings and fliers; and Intranet postings.

Respondents indicated that some of the challenges associated with their organization's employee referral program were lack of program awareness, stimulating employee participation and measuring program effectiveness. Less than one-fifth of respondents indicated that they have experienced no challenges with their employee referral programs.

Slightly more than one-fifth of respondents indicated there had been no changes in their organization's employee referral program over the past three years. About one-third indicated their program had been created within the past three years, and another third indicated the overall value of incentives offered had been increased.

Respondents were asked to rate the effectiveness of their organizations' employee referral program on several criteria. Cost-effectiveness received the highest ratings overall. Depending upon the position, anywhere from 9% to 47% of respondents indicated that employee referral programs were effective or extremely effective for filling vacancies. Laborer and clerical positions received the highest effectiveness rating, while executive positions received the lowest.

Respondents indicated that the most effective strategy to improve an organization's employee referral process would be greater promotion of the program, followed by an increased cash reward and a program online.

Survey Results

Introduction

The labor market has been tight for a number of years. Despite some recent increases in unemployment rates, it is anticipated that the labor shortage will continue to be a major concern for HR professionals. In fact, recent analyses of U.S. Census data indicate that there will be a shortage of at least six million workers by the year 2008 (Hudson Institute, 2001).

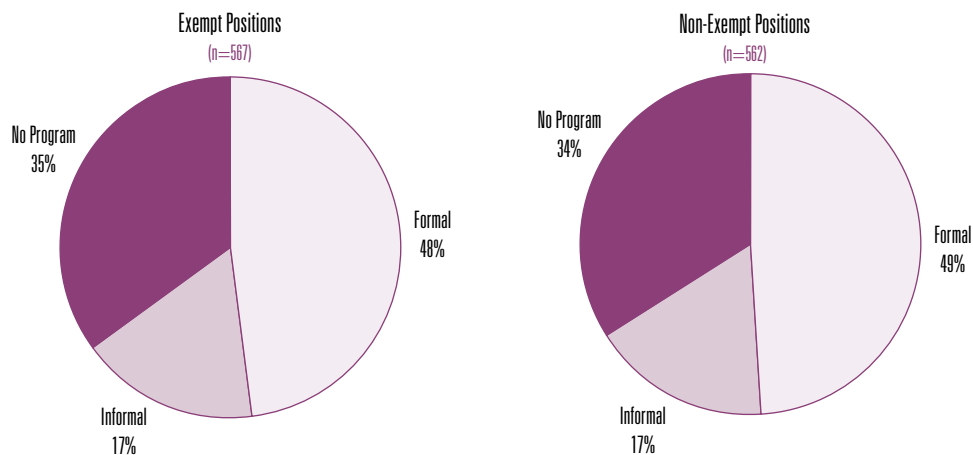
During these times, organizations must increase recruiting efforts, which is one reason why employee referral programs are receiving a lot of attention. In an effort to better understand these programs and their effectiveness, SHRM partnered with Referral Networks to conduct a survey about employee referral practices.

Structure of Employee Referral Program

As shown in Chart 1, approximately one-half (48% for exempt positions and 49% for nonexempt positions) of respondents indicated that their organizations have a formal employee referral program. Slightly less than one-fifth (17%) of respondents stated their organizations have an informal employee referral program, while slightly more than one-third (35% for exempt positions and 34% for nonexempt positions) of respondents stated their organizations have no employee referral program. Inclusion of employee referral programs was almost identical for exempt and nonexempt positions. These findings indicate that organizations frequently are including referral programs in their mix of recruiting methods.

Chart 1

Structure of Employee Referral Program



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Incentives and Rewards

Table 1 identifies the situations in which incentives or rewards are given, the types of incentives offered and how cash or money incentives are rewarded.

For both exempt and nonexempt positions, a majority of respondents (87% and 89%, respectively) indicated that their organizations give incentives for

referrals resulting in hires. Less than 5% of respondents stated their organizations gave incentives for all referrals regardless of hiring or interviewing status and for referrals resulting in interviews.

For the most part, respondents indicated that their organizations award the same incentives and rewards for both exempt and nonexempt positions. The most frequently mentioned award was cash or money, followed by cars, gift certificates and raffles. The most infrequently mentioned reward was gifts, such as TVs and jet skis. Respondents were also able to write in other responses; these included: savings bonds, lottery tickets, shirts, movie tickets, massages and flowers.

Financial rewards can be distributed in various ways. Respondents indicated that their organizations distribute these types of rewards approximately in the same way regardless of whether the referral is for an exempt or nonexempt position. Most of the time the amount is predetermined and is distributed after the referred new hire has completed a period of tenure. Respondents also noted in write-in responses that they base the

amount of the reward on the difficulty of filling the position and that they offer different amounts for different positions.

About 65% of the respondents' organizations offer formal or informal employee referral programs. In addition, there appears to be little difference or distinction between referral programs based upon whether referrals are for exempt or nonexempt positions. As a result, it might be concluded that recruitment strategies involving referral programs are used when the labor market is tight. Although there are some variations in the types of incentives offered, financial rewards clearly are offered most frequently (77% for exempt positions and 78% for nonexempt positions). Cars were a distant second, accounting for slightly more than 20%. Clearly organizations and HR professionals believe that tangible rewards are required for effective referral programs. It may be that the popular press has helped to fuel this belief by increasing awareness among employees of the significant costs associated with recruiting and the value of employee assistance through employee referrals.

TABLE 1
TYPES OF INCENTIVES PROVIDED AND HOW THEY ARE AWARDED

	Exempt Positions (Salaried Employees)		Nonexempt Positions (Hourly Employees)	
	n	Percent Responding Yes	n	Percent Responding Yes
Are incentives/rewards...				
Given for referrals resulting in hires	355	87%	327	89%
Given for all referrals regardless of hiring or interviewing status	301	3%	304	4%
Given for referrals resulting in interviews	302	2%	304	1%
What does your organization offer as an employee referral incentive/reward?				
Cash/money	318	77%	325	78%
Cars	300	23%	298	22%
Gift certificates	274	8%	273	8%
Raffle for prizes	272	6%	274	6%
Trips	276	5%	276	4%
Tickets to cultural events and/or sporting events	271	4%	272	4%
Paid time off	273	3%	269	3%
Gifts (TVs, jet skis)	271	2%	270	3%
Other	137	4%	260	4%
If there is a cash award, is the cash/money incentive awarded....				
As a predetermined amount for all referrals	313	76%	317	77%
All at once after a period of tenure	303	55%	307	52%
Over time (e.g., some at hire and some later)	270	32%	266	32%
All at once at the employee's first day of work	268	6%	271	6%
As a percentage of the new hire's salary	271	1%	270	1%
Other	138	14%	137	10%

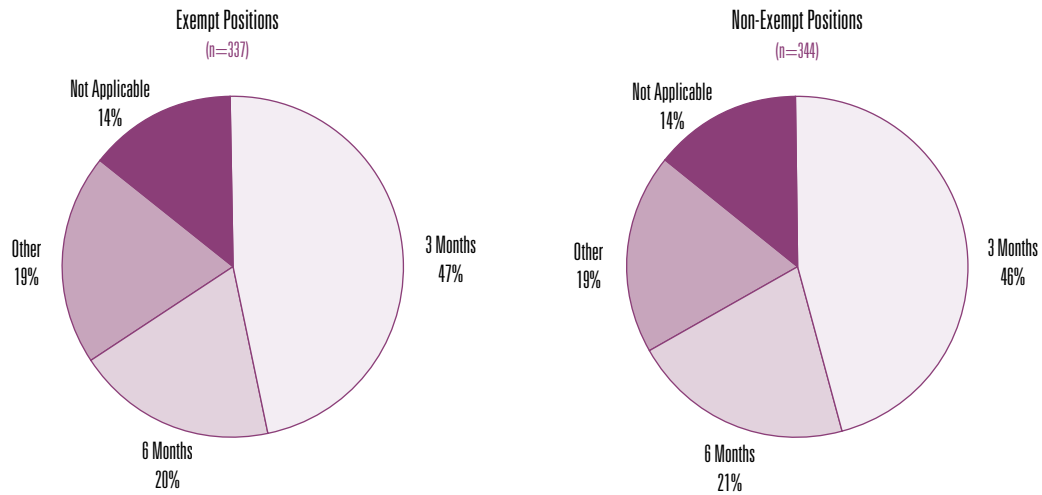
Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Percentages will not add to 100% as multiple responses were allowed.

As depicted in Chart 2, three months is the most common tenure period for which a new hire would be required to work before an incentive for the referral is given for both exempt and nonexempt positions, as indicated by almost 50% of the respondents of organizations with referral programs. About 20% require six months of tenure

before payment is made. One reason for referral payments upon the attainment of three months of tenure may be the common use of a 90-day probationary period. Respondents were able to indicate other tenure periods than those on the survey, these tenure periods ranged from no tenure period to a tenure period of one year.

Chart 2
Tenure Required Prior to Payment



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

The typical cash reward for each open position varied by exempt and nonexempt positions. For exempt positions, the most frequently indicated reward was \$500 to \$1,000 (32%), followed by less than \$500 (29%). In contrast, for nonexempt positions, a higher percentage of respondents indicated amounts of less than \$500 (42%), followed by rewards of between \$500 and \$1,000 (36%). The percentages indicating larger rewards decreased as

the amount increased; however, larger rewards were more likely to be paid for successful referrals to exempt positions. For example, 12% of respondents indicated that their organizations pay more than \$2,000 for referrals of exempt positions. As shown in Table 2, respondents indicated paying out awards of more than \$3,000 for exempt positions; however, awards of \$3,000 or more were not given for nonexempt positions.

TABLE 2
TYPICAL CASH REWARDS

What is the typical cash reward for each open position?	Exempt Positions (Salaried Employees) Percent Responding	Nonexempt Positions (Hourly Employees) Percent Responding
n	344	344
Less than \$500	29%	42%
\$500 - \$1,000	32%	36%
\$1,001 - \$2,000	19%	11%
\$2,001 - \$3,000	7%	4%
\$3,000 - \$4,000	1%	*
\$4,001 - \$5,000	3%	*
Over \$5,000	1%	0%
Not Applicable	9%	8%

*The percentage was less than 1%.

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

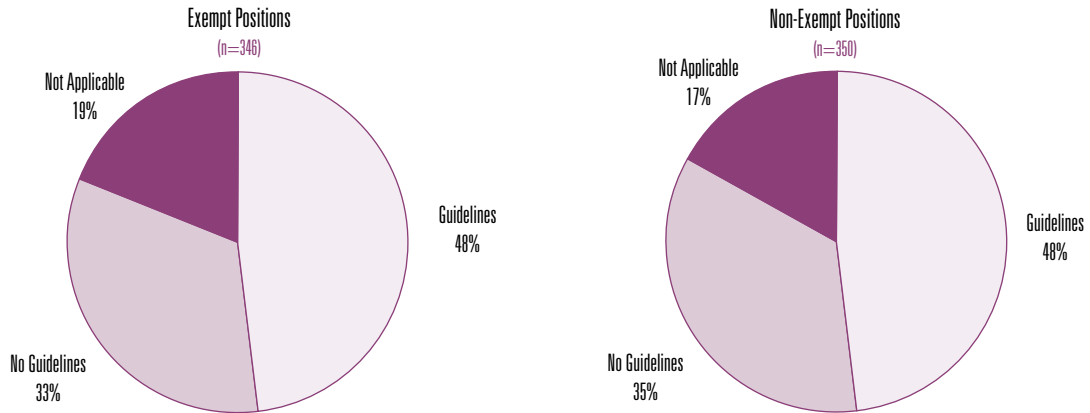
Percentages may not total to 100% due to rounding error.

Fall-offs and Repayment of Rewards

“Fall-offs” are defined as hires that do not show up on their first day or quit shortly thereafter. As shown in Chart 3, almost one-half of respondents (48% for both exempt and nonexempt positions) indicated that their organizations have guidelines regarding treatment of fall-offs in their referral programs. While organizations have fall-off guide-

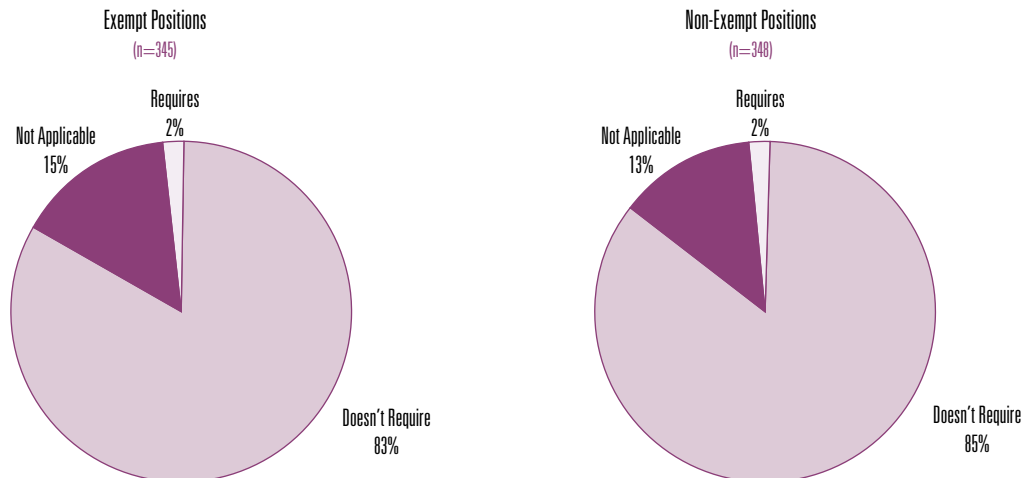
lines, very few respondents (2% for both exempt and nonexempt positions) indicated that their organizations require the incentive to be repaid if a new hire quits shortly after the incentive payment. This is depicted in Chart 4. It would be interesting to learn the specific guidelines used by organizations in administering referral programs.

Chart 3
Guidelines Regarding Fall-Offs



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Chart 4
Repayment if New Hire Quits



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Responses concerning the time required for a new hire to work in order for the incentive not to be repaid varied greatly, from no requirement to a requirement of up to one year. Three months and six months were the most common responses.

Number of Referrals Employees May Refer and Be Eligible for Incentives

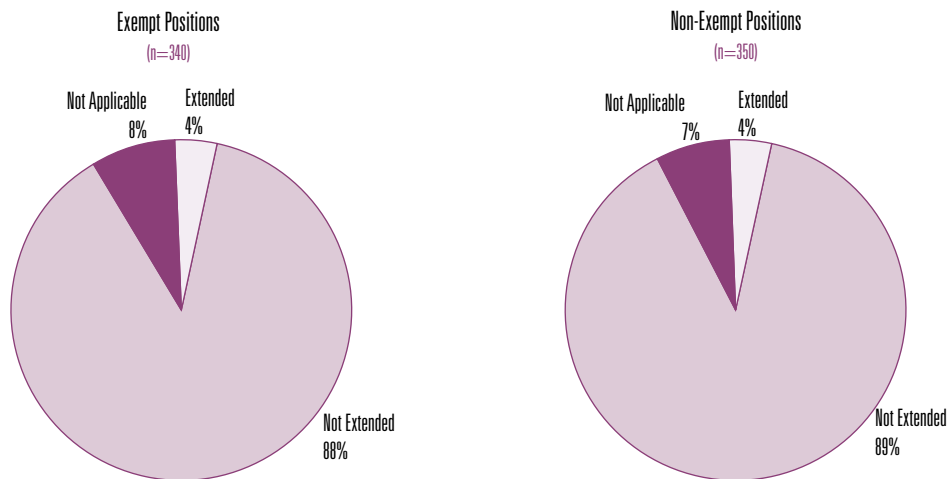
No respondents indicated that their organizations limit the referrals an employee can make and remain eligible for an incentive. Of the 397 respondents who answered this question, more than three-quarters (78% for exempt employees

and 79% for nonexempt employees) indicated that employees might refer an unlimited number of candidates.

Extension of Referral Program

As depicted in Chart 5, few respondents (4% for both exempt and nonexempt positions) stated that their organizations extend their referral programs beyond employees to others, such as former employees, consultants and vendors. Although few are doing it now, HR professionals may want to consider extending referral programs, particularly in a tight labor market.

Chart 5
Referral Program Extended to Non-Employees

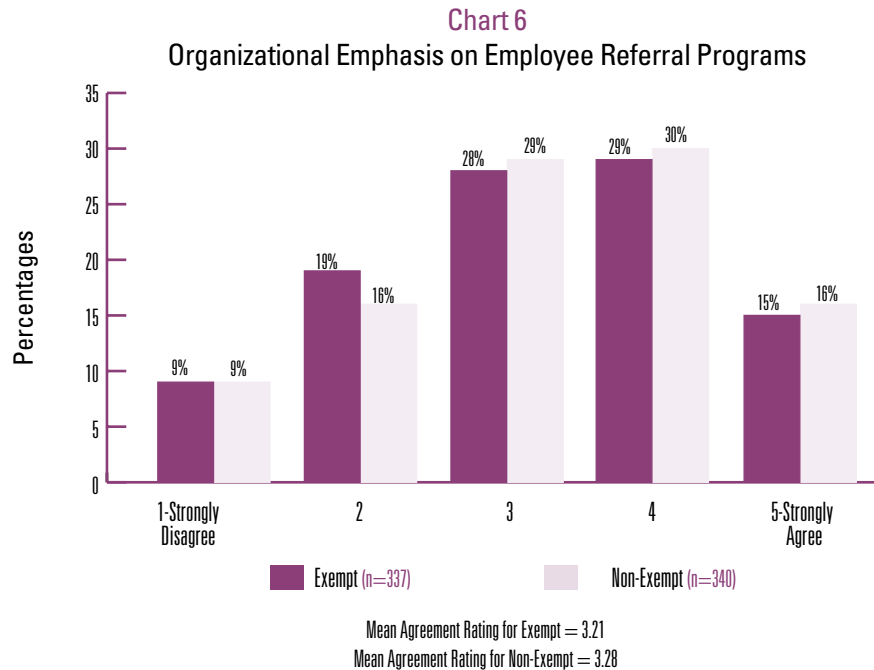


Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Organizational Emphasis on Employee Referral Programs

Respondents were asked to rate their agreement with whether or not they believe their organization places enough emphasis on and/or investment in its employee referral program. The mean agreement rating was 3.21 for exempt positions

and 3.28 for nonexempt positions. In their opinions, 44% of respondents agreed or strongly agreed that their organizations put enough emphasis on the employee referral program for exempt positions, as did 46% for nonexempt positions. These data are shown in Chart 6.



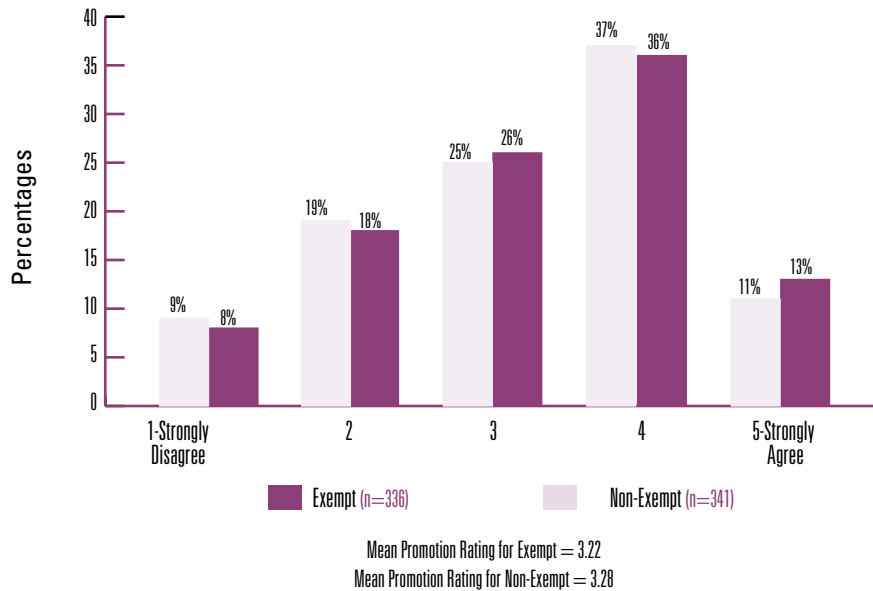
Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages may not total to 100% due to rounding error.

Based upon the ratings of organizational emphasis and investment, it might be concluded that some organizations place more emphasis on their referral programs than others. Most organizations will use a mix of recruiting methods and will most likely attempt to use the methods best suited to attract the type of workers that they need. A lack of emphasis or investment of a referral program could result for a variety of reasons—ranging from a lack of knowledge of the benefits of such a program to a belief that such a program is not advantageous and hence, more resources are needed. From these results, we do not know why some organizations fail to emphasize or invest in employee referral programs. It would seem that further research should attempt to answer this question.

Promotion of Employee Referral Programs

Respondents were asked to give their opinion about the level of promotion their organizations give to employee referral programs. Slightly less than one-half of respondents (48%) indicated that their organizations promoted or extremely promoted the employee referral program for exempt positions, as did 49% for nonexempt positions. Because the survey question asked about the level of promotion and not about opinions of whether or not this was enough promotion, no conclusions on this point can be drawn. Promotion may not be high, but a number of very different reasons could account for this. These data are shown in Chart 7.

Chart 7
Promotion Given to Employee Referral Program



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages may not total to 100% due to rounding error.

Referral Statistics

As depicted in Table 3, respondents indicated that an average of 57 referrals for exempt positions were presented to HR in 2000, with an average of 16 interviews granted and an average of 15 hires made. These hires represented an average of 18% of the overall new hires in 2000 and were referred by an average of 10% of the employees from the respondents' organizations. Overall, referral incentives and rewards cost the respondents' organizations an average of \$12,000. On average, the cost of each exempt hire made through the employee referral program was about \$896 in incentives and rewards. Table 11 in the Industry Comparison section of this report shows a comparison by industry of incentive costs per referral hired.

For nonexempt positions, the numbers are a bit

higher. Respondents indicated that an average of 73 referrals were presented to HR in 2000, with an average of 27 interviews granted and an average of 27 hires made. These hires represented an average of 24% of the overall new hires in 2000 and were referred by an average of 12% of the employees from the respondents' organizations. Overall, the cost of referral incentives and rewards to the respondents' organizations averaged \$9,000. On average, the cost of each nonexempt hire made through the employee referral programs was about \$399 in incentives and rewards. Table 11 in the Industry Comparison section of this report shows a comparison by industry of incentive costs per referral hired.

It should be noted that in some instances, outliers (very high or low answers) tend to skew the mean. Thus, the median (the true middle point of the data) may be a more accurate representation of

what organizations are experiencing relative to their referral programs. For example, the median number of referrals made for exempt positions was 5 and the median for nonexempt positions was 10, covering 10% and 15% respectively as a percentage of new hires. These data, along with actual ranges, are presented in Table 3.

Another point to note is that approximately 50% of the respondents who reported having referral programs were unable (or unwilling) to provide estimates about how many referrals they had and

what the resulting hires or costs were that were associated with the program. As a result, the data presented may or may not be an accurate picture of the experiences of referral programs. It is unclear why about half of the respondents reported not knowing this information. It may be that they do not track the information or that there was so much activity that it was difficult for them to provide reliable estimates. Regardless, the estimates here should be viewed somewhat cautiously in terms of their representativeness for all referral programs.

TABLE 3
EMPLOYEE REFERRAL PROGRAM STATISTICS

	Exempt Employees (Salaried Employees)					Nonexempt Employees (Hourly Employees)				
	Amount Given				Don't Know	Amount Given				Don't Know
	n	Range	Mean	Median		n	Range	Mean	Median	
					Percent Responding (n=397)					Percent Responding (n=397)
Number of Employees Referred in 2000	150	0–2,400	57	5	44%	148	0–2,580	73	10	44%
Number of Referrals Interviewed in 2000	127	0–300	16	4	48%	125	0–497	27	8	47%
Number of Referrals Hired in 2000	162	0–262	15	3	39%	157	0–860	27	5	39%
Percentage of New Hires from Referrals in 2000	126	0%–100%	18%	10%	46%	120	0%–100%	24%	15%	47%
Percentage of Employees Referring Candidates in 2000	78	0%–50%	10%	5%	54%	75	0%–80%	12%	7%	55%
Amount Paid for Referrals in 2000	144	\$0–\$300,000	\$12,000	\$1,000	36%	140	\$0–\$216,000	\$8,000	\$1,450	37%

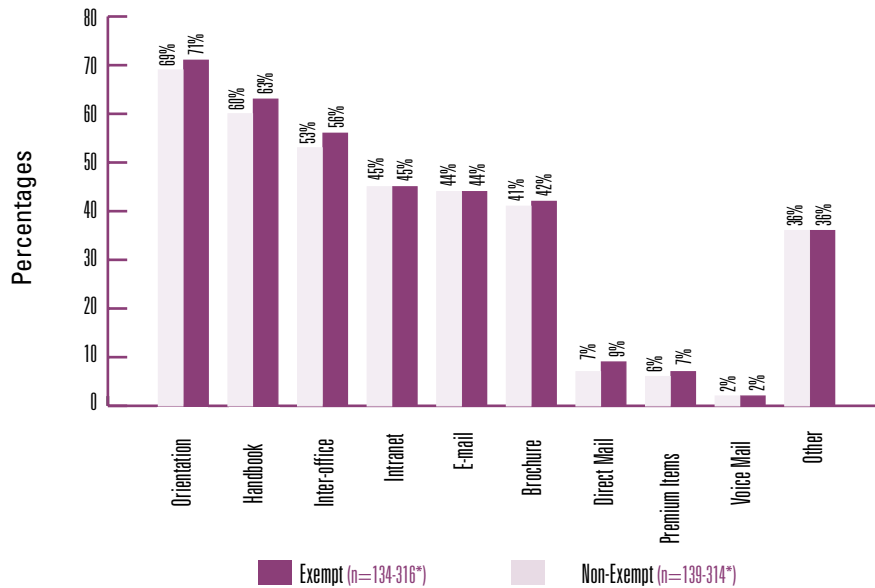
Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Communication of Employee Referral Programs

As shown in Chart 8, respondents were asked to indicate the types of communication used to promote their organizations' employee referral programs. From a frequency perspective, no differences exist between types of communication for exempt and nonexempt positions. Mentioning the program during employee orientation was the most commonly indicated communication (69% for exempt positions and 71% for nonexempt positions), followed by explanations in the

employee handbook (60% for exempt positions and 63% for nonexempt positions), interoffice mailings and fliers (53% for exempt positions and 56% for nonexempt positions) and Intranet postings (45% for both exempt and nonexempt positions). Voice mail descriptions were the least frequently mentioned means of communication (2% for both exempt and nonexempt positions). Thus, it appears that organizations are using fairly typical modes of communication to identify and explain employee referral programs. Other means of communication indicated by respondents included: word of mouth, posters, staff meetings, newsletters

Chart 8
Promotion of Program



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
 Percentages may not total to 100% due to rounding error.
 *Sample size varies by question.

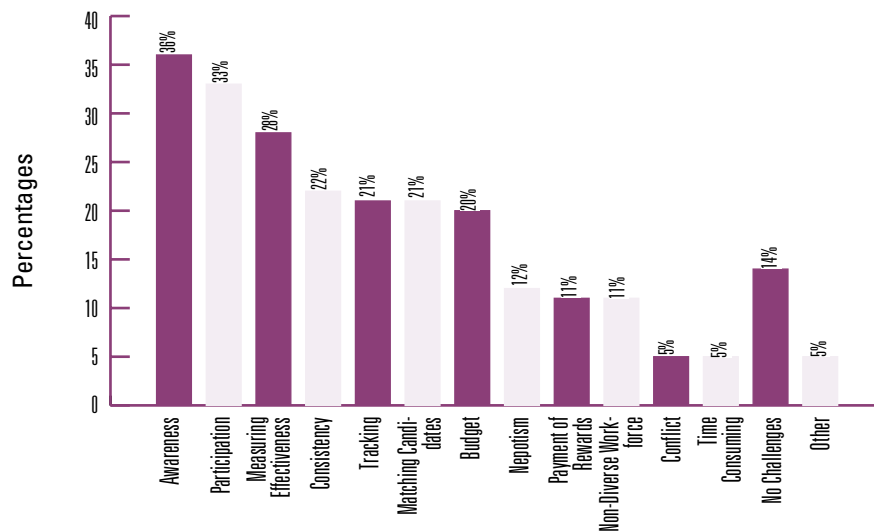
and promotion by department directors.

Challenges Encountered With Employee Referral Programs

Respondents were asked a series of questions to determine what challenges they had experienced with regard to using an employee referral program. Fourteen percent (14%) of respondents indicated there have been no challenges with their organization's employee referral program. Among some of the challenges noted by the remaining 86% of respondents; however, were lack of program awareness (36%), stimulating employee participation (33%) and measuring program effectiveness (28%). The frequencies of the other challenges, such as consistency, tracking and matching candidates, are shown in Chart 9. Other chal-

lenges suggested by respondents included: non-payment for verbal referrals, employee relations when referral is not qualified, not enough of an incentive, helping employees understand program procedures, management support, focus on recruiting rather than job, awards being competitive with others in the same industry and timely feedback to referral candidates. The challenges of program awareness and stimulating employee participation may both be a result of the types of communication used in promotion. The types of communication respondents pointed out most frequently tend to be communications that employees see or hear only once, such as the new employee orientation, or reference infrequently, such as

Chart 9
Challenges Encountered With Employee Referral Program
(n=397)



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages may not total to 100% due to rounding error.

the employee handbook.

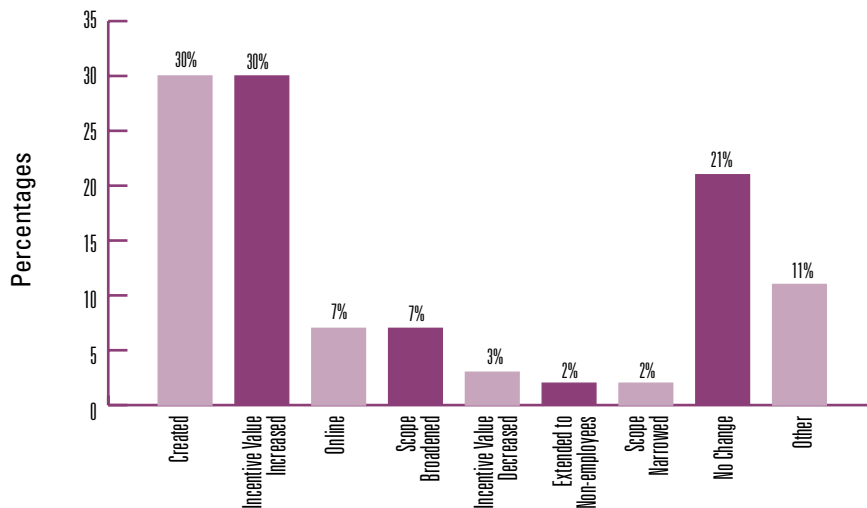
Changes in Employee Referral Programs Over Past Three Years

While 21% of respondents indicated there had not been a change in their organization’s employee referral program over the past three years, 30% indicated the program had been created within the past three years and 30% indicated the overall value of incentives offered has increased. These changes are not at all surprising given the recent tightening of the labor market. Few of the respondents’ organizations have decreased the overall value of incentives offered (3%), extended the program to nonemployees (2%) or narrowed the

scope of the program to include a smaller range of employees (2%). Chart 10 depicts these frequencies as well as frequencies for other changes presented on the survey.

Other changes suggested by respondents included: better promotion of the program, the program and process has become more formal, can no longer refer spouses, incentives have changed, implementation of tracking of referrals, tenure period has been changed, no management bonus pool participants, department management discretion in determining award and greater incen-

Chart 10
Changes Over Past Three Years
(n=397)



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages will not add to 100% as multiple responses were allowed.

tives for hard-to-fill positions.

Effectiveness of Employee Referral Programs

Respondents were asked a series of questions to help understand the effectiveness of employee referral programs. The responses to this five-point effectiveness scale can be seen in Table 4. Respondents were asked to rate the effectiveness of their organizations' employee referral program on several criteria. Cost-effectiveness received the highest ratings overall. Eighty percent (80%) of the respondents indicated that the cost-effectiveness of their employee referral program compared to the cost-effectiveness of using contingency firms was effective or extremely effective (mean rating of 4.27), followed by 69% who believed cost-effectiveness compared to other recruiting methods was effective or extremely effective (mean rating of 3.92). Overall, 66% believe that cost-effectiveness (mean rating of 3.83) of employee referral programs is effective or extremely effective. The fact that cost-effectiveness would be highly considered by respondents is not surprising because employee referrals typically consume less time and cost less than other recruiting methods.

Questions regarding morale boosting, generation of quality candidates, tenure of new hire, overall effectiveness, increasing retention and number of candidates generated all received somewhat neutral ratings (mean ratings clustered around the rating of 3.00). In terms of effectiveness, this means that between 37% and 49% of the respon-

dents considered these issues as effective or extremely effective. As no clear majority was indicated on these issues, it might be concluded that while some organizations find these aspects of employee referral programs to be positive, many do not.

About 37% of the respondents indicated that employee referral programs were effective or extremely effective compared to other recruiting methods. Thirty-six percent (36%) said that increasing retention of current employees was effective or extremely effective and about 34% indicated similar perceptions regarding the number of candidates generated as well as the number generated compared to other recruiting methods. Only about 20% viewed referral programs as being effective or extremely effective with regard to creating diversity. This may account for part of the reason why these programs are not heavily promoted or emphasized. Exact ratings and percentages can be found in Table 4.

Respondents were asked to consider the effectiveness of employee referral programs for filling various types of positions. Depending upon the position, anywhere from 9% to 47% of respondents indicated that employee referral programs were effective or extremely effective. The effectiveness of the programs with regard to laborer and clerical positions was the highest, with about 45% stating that it was effective or extremely effective. The effectiveness of referrals on executive positions

TABLE 4
EFFECTIVENESS OF EMPLOYEE REFERRAL PROGRAMS

Please indicate the effectiveness of your organization's employee referral program in the following scenarios.			Percent Responding						
	n	Mean	1 – Not at all Effective	2	3	4	5 – Extremely Effective	n	Percent Responding Don't Know
Cost-effectiveness compared to cost-effectiveness of using contingency firms (i.e., firms charging a fee for recruiting candidates who are hired by the client organization)	294	4.27	3%	6%	12%	21%	59%	324	9%
Cost-effectiveness compared to other recruiting methods	303	3.92	4%	7%	19%	30%	39%	321	6%
Overall cost-effectiveness	308	3.83	4%	6%	25%	34%	32%	326	6%
Boosting morale among employees	317	3.34	6%	13%	33%	39%	10%	332	5%
Overall generation of quality candidates	325	3.30	3%	16%	36%	38%	7%	335	3%
Generation of quality candidates compared to other recruiting methods	319	3.24	3%	20%	33%	35%	8%	332	4%
Increasing job tenure of new hire	299	3.17	7%	16%	37%	36%	5%	329	9%
Increasing job tenure of new hire compared to other recruiting methods	294	3.13	7%	19%	35%	32%	7%	327	10%
Overall effectiveness	323	3.15	4%	21%	37%	30%	7%	333	3%
Effectiveness compared to other recruiting methods	318	3.10	7%	24%	32%	26%	11%	330	4%
Increasing retention of current employees	306	3.06	9%	18%	37%	30%	6%	328	7%
Number of candidates generated	324	3.09	6%	22%	38%	25%	9%	334	3%
Number of candidates generated compared to other recruiting methods	323	2.90	10%	30%	29%	21%	10%	335	4%
Creating a diverse workforce	310	2.72	15%	25%	40%	16%	5%	331	6%
Creating a diverse workforce compared to other recruiting methods	307	2.70	13%	26%	43%	13%	4%	329	7%
Filling laborer positions	164	3.23	10%	17%	26%	32%	15%	323	49%
Filling clerical positions	272	3.11	11%	16%	30%	35%	8%	328	17%
Filling skilled positions	269	3.11	9%	16%	36%	33%	6%	328	18%
Filling service positions	192	3.03	15%	14%	32%	32%	7%	325	41%
Filling technical positions	273	3.00	13%	17%	35%	28%	7%	328	17%
Filling sales positions	219	2.59	19%	28%	31%	18%	4%	327	33%
Filling managerial/professional positions	279	2.43	25%	31%	24%	18%	3%	327	15%
Filling executive positions	256	1.93	44%	31%	15%	7%	2%	328	22%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages may not total to 100% due to rounding error.

received the lowest rating of just 9%. Percentages and mean ratings can all be seen in Table 4.

Effectiveness of Different Improvements

Respondents indicated that the most effective tactic to improve an organization’s employee referral process would be to increase promotion of the program (mean rating of 3.95), followed by increased cash reward (mean rating of 3.56) and

having the program online (3.15). These results indicate that it may be an issue of “which comes first.” That is, if there is greater promotion of a referral program and it is hence used more often, would the effectiveness of the program also be viewed more positively? Or, does the program need to be viewed more positively before it is promoted more heavily? Table 5 shows all the mean

TABLE 5
EMPLOYEE REFERRAL PROGRAM IMPROVEMENTS

			Percent Responding					Percent Responding	
	n	Mean	1 – Not at all Effective	2	3	4	5 – Extremely Effective	n	Don’t Know*
Greater promotion of the employee referral program	328	3.95	2%	6%	19%	40%	33%	335	2%
Greater cash reward	325	3.56	7%	12%	23%	35%	24%	332	3%
Having the Employee referral program online	299	3.15	17%	17%	21%	25%	20%	324	8%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey
Percentages may not total to 100% due to rounding error.

* Only respondents completing the survey online were given an option of “don’t know” for this series of questions.

Industry Analysis

ratings and percentages associated with this question.

The following section depicts the results of the industry analysis and significance testing, which was conducted where appropriate. Exact significance results are available upon request from SHRM.

Table 6 depicts the responses by industry of incentives and rewards offered for referrals of exempt positions. As seen in the table, manufacturing (non-durable goods), services (profit) and whole-

sale/retail trade are more likely to offer trips as an incentive. The wholesale/retail trade industry is also more likely to offer gift certificates and gifts as incentive for employee referrals. Gifts are also offered by the services (profit) and telecommunication industries more than other industries. The construction industry is more likely to offer paid time off as incentive for employee referrals. While most industries rely heavily on financial rewards, the construction, educational service and manufacturing (durable goods and nondurable goods) industries tend to offer monetary awards less fre-

TABLE 6
INCENTIVES AND REWARDS FOR EXEMPT POSITIONS BY INDUSTRY

	Industry																	
	Total*	Construction & Mining/ Oil & Gas	Educational Services	Finance	Government	Health	High Tech	Insurance	Newspaper Publishing/ Broadcasting	Manufacturing (Durable goods)	Manufacturing (Non-durable goods)	Services (Non-profit)	Services (Profit)	Telecommunications	Transportation	Utilities	Wholesale/Retail Trade	Other
n**	272-317	9-12	4-6	28-29	4-5	24-30	34-40	10-12	3	32-40	14-17	10-12	38-46	12-13	4-5	3	10-14	33-38
Trips	4%	0%	0%	0%	0%	8%	0%	0%	0%	0%	13%	0%	11%	8%	0%	0%	18%	3%
Paid Time Off	3%	11%	0%	0%	0%	8%	6%	0%	0%	0%	0%	0%	5%	8%	0%	0%	0%	0%
Gift Certificates	7%	0%	0%	7%	0%	8%	6%	0%	0%	6%	0%	0%	11%	0%	0%	0%	36%	12%
Gifts	2%	0%	0%	0%	0%	4%	0%	0%	0%	0%	0%	0%	8%	8%	0%	0%	10%	0%
Cars	22%	58%	50%	29%	0%	15%	9%	9%	0%	26%	35%	20%	26%	8%	40%	0%	9%	20%
Money	76%	50%	25%	83%	80%	87%	93%	83%	100%	53%	50%	92%	79%	100%	50%	67%	78%	74%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

*The total sample size and percentages may differ from other charts and tables as this cross-tabulation only takes into account those responses of respondents who answered the question and indicated their organization's industry.

**Sample size varies by response to each individual question.

Tables with exact significance are available upon request from SHRM.



TABLE 7
INCENTIVES AND REWARDS FOR NONEXEMPT POSITIONS BY INDUSTRY

	Industry																	
	Total*	Construction & Mining/ Oil & Gas	Educational Services	Finance	Government	Health	High Tech	Insurance	Newspaper Publishing/ Broadcasting	Manufacturing (Durable goods)	Manufacturing (Non-durable goods)	Services (Non-profit)	Services (Profit)	Telecommunications	Transportation	Utilities	Wholesale/Retail Trade	Other
n**	268-322	8-11	4-6	27-29	4	24-32	34-40	10-12	3	33-41	14-17	10-12	39-48	11-13	5	3	9-14	31-38
Trips	4%	0%	0%	0%	0%	8%	0%	0%	0%	0%	7%	0%	13%	9%	0%	0%	9%	3%
Tickets	4%	13%	0%	4%	0%	4%	6%	0%	0%	0%	7%	0%	10%	0%	0%	0%	11%	3%
Raffles	6%	0%	20%	7%	0%	16%	3%	0%	0%	0%	0%	0%	13%	0%	0%	0%	11%	6%
Paid Time Off	3%	13%	0%	0%	0%	8%	3%	0%	0%	3%	0%	0%	5%	9%	0%	0%	0%	0%
Gift Certificates	8%	0%	0%	7%	0%	13%	6%	0%	0%	6%	0%	0%	10%	0%	20%	0%	30%	12%
Gifts	3%	0%	0%	0%	0%	12%	0%	0%	0%	0%	0%	0%	8%	9%	0%	0%	11%	0%
Cars	21%	55%	50%	25%	0%	15%	9%	9%	0%	23%	35%	20%	25%	9%	20%	0%	10%	18%
Money	77%	55%	0%	83%	50%	91%	80%	92%	100%	61%	44%	92%	82%	100%	80%	67%	86%	79%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

*The total sample size and percentages may differ from other charts and tables as this cross-tabulation only takes into account those responses of respondents who answered the question and indicated their organization's industry.

**Sample size varies by response to each individual question.

Tables with exact significance are available upon request from SHRM.

quently. These differences tended to be statistically significant.

As in the previous table, Table 7 depicts the responses by industry of incentives and rewards offered for referrals of nonexempt employees. The services (profit) industry is more likely to offer trips and tickets as rewards. Likewise, manufacturing (durable goods) is more likely to offer tickets for nonexempt employee referrals. Raffles are used as incentives by the educational service industry more often than the other industries. Similar to the incentives given for exempt employees, the con-

struction industry is more likely than the other industries to provide paid time off; however, the construction industry also offers cars as does the educational service industry. The wholesale/retail trade industry is more likely than other industries to provide gift certificates while the health care industry is more likely to offer gifts as incentives. Similar to the cash incentives offered for exempt positions, most industries rely heavily on financial rewards for nonexempt positions; however, the construction, educational service and manufacturing (durable and non-durable goods) industries tend to offer

monetary awards less frequently. These differences tended to be statistically significant. Table 8 depicts the values of monetary awards given for successful referrals of exempt employees. The services (non-profit) industry is more likely to award amounts lower than \$500. The health industry uses monetary awards of \$500 to \$1,000 more often than other industries, while high-tech firms

give awards of \$1,001 to \$2,000 and more than \$5,000 more frequently than other industries. Utilities reward amounts of \$2,001 to \$3,000 more frequently, and telecommunications companies offer awards of \$3,001 to \$4,000 more frequently than other industries. The financial industry awards of more than \$4,000 occurred more frequently than any other industry. These differences tended to be

TABLE 8
TYPICAL CASH REWARDS FOR EXEMPT POSITIONS BY INDUSTRY

	Industry																	
	Total*	Construction & Mining/ Oil & Gas	Educational Services	Finance	Government	Health	High Tech	Insurance	Newspaper Publishing/ Broadcasting	Manufacturing (Durable goods)	Manufacturing (Non-durable goods)	Services (Non-profit)	Services (Profit)	Telecommunications	Transportation	Utilities	Wholesale/Retail Trade	Other
n	338	14	5	31	5	31	40	13	3	41	19	13	49	13	4	3	14	40
Less than \$500	29%	43%	20%	36%	40%	23%	3%	31%	67%	39%	26%	69%	29%	8%	25%	0%	50%	25%
\$500-\$1,000	32%	29%	60%	36%	40%	48%	33%	23%	0%	24%	21%	15%	31%	46%	25%	33%	29%	35%
\$1,001-\$2,000	19%	14%	0%	13%	0%	16%	33%	23%	33%	15%	11%	15%	22%	31%	25%	0%	7%	20%
\$2,001-\$3,000	7%	7%	0%	3%	0%	3%	23%	8%	0%	0%	11%	0%	6%	8%	0%	33%	0%	8%
\$3,001-\$4,000	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	8%	0%	0%	0%	0%
\$4,001-\$5,000	3%	0%	0%	10%	0%	3%	8%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	3%
More than \$5,000	1%	0%	0%	3%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

*The total sample size and percentages may differ from other charts and tables as this cross-tabulation only takes into account those responses of respondents who answered the question and indicated their organization's industry.



statistically significant.

Similar to the previous table, Table 9 depicts the values of monetary awards given for successful referrals of nonexempt employees. The transportation industry is more likely to award in amounts of less than \$500. The government uses monetary awards of \$500 to \$1,000 more often

than other industries, while the publishing industry gives awards of \$1,001 to \$2,000 more than other industries. The educational service industry uses amounts of \$2,001 to \$3,000 more frequently, and the health industry offers awards of \$3,001 to \$4,000 more frequently than other industries. High tech firms award amounts of more than \$4,000 more frequently than any other industry.

TABLE 9
TYPICAL CASH REWARDS FOR NONEXEMPT POSITIONS BY INDUSTRY

	Industry																	
	Total*	Construction & Mining/ Oil & Gas	Educational Services	Finance	Government	Health	High Tech	Insurance	Newspaper Publishing/ Broadcasting	Manufacturing (Durable goods)	Manufacturing (Non-durable goods)	Services (Non-profit)	Services (Profit)	Telecommunications	Transportation	Utilities	Wholesale/Retail Trade	Other
n	338	13	5	31	3	33	36	13	3	41	19	13	53	13	5	3	14	40
Less than \$500	41%	46%	0%	45%	0%	27%	17%	46%	67%	59%	32%	69%	43%	31%	80%	33%	57%	40%
\$500-\$1,000	36%	31%	60%	32%	67%	46%	50%	46%	0%	24%	32%	15%	34%	62%	20%	33%	36%	30%
\$1,001-\$2,000	11%	0%	0%	16%	0%	18%	17%	0%	33%	2%	0%	15%	13%	8%	0%	0%	0%	18%
\$2,001-\$3,000	4%	15%	0%	7%	0%	3%	8%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	8%
\$3,001-\$4,000	**	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
\$4,001-\$5,000	**	0%	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
More than \$5,000	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

*The total sample size and percentages may differ from other charts and tables as this cross-tabulation only takes into account those responses of respondents who answered the question and indicated their organization's industry.

**Less than one percent.

These differences tend to be statistically significant. Table 10 depicts the percentage of organizations by industry that extends their referral programs

beyond employees. For both exempt and nonexempt positions, the publishing industry is most likely to take advantage of relationships outside of the workplace. Although this difference was statis-

TABLE 10
EXTENSION OF REFERRAL PROGRAM TO NON-EMPLOYEES BY INDUSTRY

	Industry																	
	Total*	Construction & Mining/ Oil & Gas	Educational Services	Finance	Government	Health	High Tech	Insurance	Newspaper Publishing/ Broadcasting	Manufacturing (Durable goods)	Manufacturing (Non-durable goods)	Services (Non-profit)	Services (Profit)	Telecommunications	Transportation	Utilities	Wholesale/Retail Trade	Other
n**	300–305	13	6	31	2	28–30	34	11	3	33–34	18	13	47–48	11	2–3	2	12	34
Exempt Positions	5%	15%	0%	0%	0%	7%	15%	9%	33%	0%	0%	8%	4%	0%	0%	0%	0%	0%
Non-Exempt Positions	4%	15%	0%	0%	0%	7%	12%	9%	33%	0%	0%	8%	2%	0%	0%	0%	0%	0%

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

*The total sample size and percentages may differ from other charts and tables as this cross-tabulation only takes into account those responses of respondents who answered the question and indicated their organization's industry.

**Sample size varies by response to each individual question.

tically significant, it should be noted that the sample size for publishing was quite small.

Table 11 depicts the average incentive cost per hired referral. The costs were calculated on a case-by-case basis and then averaged. In most cases, the

cost for incentives of exempt hires is more than the cost for incentives given for nonexempt hires. It should be noted that due to the small number of responses, these industry averages should be viewed somewhat cautiously in terms of how they

TABLE 11
AVERAGE COST OF INCENTIVES FOR REFERRED HIRE BY INDUSTRY

	Cost For Exempt Positions		Cost For Non-Exempt Positions	
	n	Mean	n	Mean
Construction & Mining/Oil & Gas	4	\$121	6	\$239
Finance	12	\$1,265	11	\$486
Government			1	\$750
Health	7	\$633	10	\$376
High Tech	16	\$1,920	11	\$849
Insurance	5	\$727	4	\$288
Newspaper Publishing/Broadcasting	2	\$288	2	\$338
Manufacturing (Durable Goods)	17	\$649	16	\$413
Manufacturing (Non-durable Goods)	6	\$635	9	\$265
Services (Non-profit)	5	\$670	4	\$234
Services (Profit)	17	\$849	16	\$417
Telecommunications	1	\$1,000	1	\$1,000
Utilities	1	\$0	1	\$0
Wholesale/Retail Trade	8	\$346	8	\$293
Other	10	\$722	12	\$222

Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

Result Comparison by Methodology

represent all referral programs.

Responses were received both via fax and via the Internet. To ensure that the method of collecting data did not skew the results, statistical significance testing was performed. Overall, there were very few differences. The following is a summary of the differences that were found:

Fax respondents were more likely to indicate that their organizations:

- Have a formal employee referral program structure for nonexempt positions.
- Do not provide incentives or rewards for referrals resulting in hires for nonexempt positions.
- Offer cars for successful referrals to fill both exempt and nonexempt position.
- Do not promote the employee referral program for exempt positions via e-mail reminders and job descriptions.
- Believe that measuring the program's effective-

ness is one of the challenges presented by the employee referral program.

Internet respondents were more likely to indicate that their organizations:

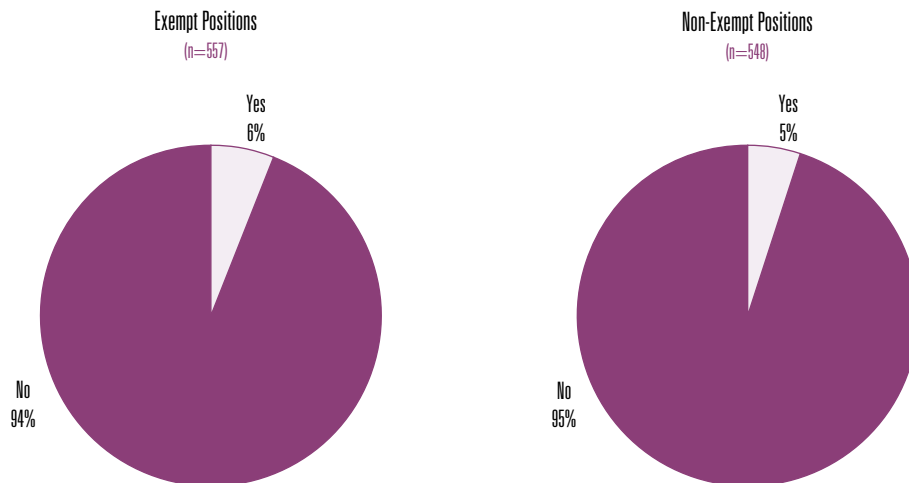
- Offer cash or money for referrals to both exempt and nonexempt positions.
- Promote the employee referral program for both exempt and nonexempt positions (more of those surveyed by fax said their programs were promoted somewhat).
- Do not promote the employee referral program for nonexempt positions via brochures to new hires.
- Believe that tracking of referral candidates through the recruitment process is one of the challenges presented by the employee referral program.
- Believe that increased cash rewards would not be an effective tactic to improve an organization's employee referral process.

Demographics

Recruiters

As depicted in Chart 11, few respondents indicated that their organizations offer bonuses to recruiters or have incentive systems for the recruiters in the HR department. Only 6% of respondents indicated that they had an incentive system for filling exempt positions, and only 5% indicated they had an incentive system for filling nonexempt positions. Offering incentive pay to recruiters is not typical as it might be for sales or other positions with quantifiable outcomes; however, it is interesting to note that some organizations have begun to

Chart 11
Bonus System for Recruiters



Source: SHRM®/Referral Networks 2001 Employee Referral Program Survey

approach recruiting in this fashion. As the labor shortage continues and perhaps intensifies, it will be interesting to see if this trend continues and/or strengthens.

Respondents indicated the mean number of full-time staff members who are considered recruiters is three; the median is one. Responses ranged from zero to 400 recruiters. The mean number of part-time staff mem-

bers who are considered recruiters is one; the median is zero. Responses ranged from zero to 35 recruiters.

Staff Working Directly With Employee Referral Program

Respondents indicated the mean number of full-time staff members working directly with the employee referral program is four; the median is one. Responses ranged from zero to 400. The mean number of part-time staff members working directly with the employee referral program is less than one. The median is zero. Responses ranged from zero to 15.

Employees Covered by Employee Referral Program

Region

Area 1	Northeast (Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont)	18%
Area 2	Southeast (Alabama, D.C., Florida, Georgia, Kentucky, Maryland, North Carolina, South Carolina, Tennessee, Virginia)	26%
Area 3	Upper Midwest (Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, Ohio, South Dakota, West Virginia, Wisconsin)	20%
Area 4	Lower Midwest & South Central (Arkansas, Kansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Texas)	12%
Area 5	Northwest (Alaska, Idaho, Montana, Oregon, Washington, Wyoming)	5%
Area 6	Southwest (Arizona, California, Colorado, Hawaii, Nevada, New Mexico, Utah)	14%
Other		6%

The mean number of employees covered by the employee referral program is 1,411. The median is 200. Responses ranged from zero to 72,000.

Unionization

Sixteen percent of respondents stated that a percentage of employees at their location are unionized. The mean percentage is 49 while the median is 60. Responses ranged from 1% to 99%.

Type of Organization

Manufacturing (Durable goods)	14%
Services (profit)	11%
High Tech	9%
Health	8%
Finance	7%
Services (non-profit)	6%
Manufacturing (Non-durable goods)	6%
Government	5%
Wholesale/Retail Trade	4%
Construction & Mining/Oil & Gas	4%
Insurance	4%
Educational Services	3%
Telecommunications	3%
Transportation	2%
Newspaper Publishing/Broadcasting	1%
Utilities	1%
Other	13%

Twenty-six percent of respondents indicated that their organizations' referral program extends to unionized employees, while 19% stated the program does not extend to non-employees. Fifty-four percent of these respondents indicated that their organizations do not have a referral program.

Sector

Private Sector	82%
Public/Government Sector	19%

Profit/Not for Profit

Profit	79%
Not for Profit	21%

Conclusion

Modern organizations have found that employee referral programs enhance their recruitment efforts. Anecdotally, HR professionals have believed that referral programs generate high-quality candidates. One reason is that they assume current employees would be hesitant to recommend individuals who might not perform well. The current data supports this belief in part. About 45% of the respondents viewed favorably the statement that employee referral programs generate more quality candidates than other recruiting methods. Given that there are so many differences among organizations with regard to recruitment methods and staffing needs, it should not be expected that there be universal agreement to these effectiveness statements. It may be that in some organizations, referrals work well for one type of staffing need but less well for another.

One fact that these data support very clearly is that employee referrals have the potential to be a very cost-effective way to find qualified candidates. The current study demonstrates this point in several ways. First, the perceptual views of HR professionals support the effectiveness of referrals from the point of view of cost-effectiveness. Second, the actual cost on a per-hire basis was estimated to be lower than \$1,000 for exempt positions and lower

than \$500 for nonexempt positions. Thus, organizations that face staffing shortages may want to consider adding referrals to their mix of recruiting methods or perhaps emphasize their use. To consider doing this; however, the organization should have a sense of which vacancies would benefit from an employee referral program.

Measurement and metrics have become more common in HR practices and are favored by many organizations. Employee referral programs offer organizations a way to capture such metrics and also offer a way to analyze the effectiveness of the program in relation to staffing needs. As a result, one recommendation from this study is to track the results from any initiative in an employee referral program so that the data can be used to target the referral program more effectively. The popular press has reported employee referral bonuses of up to \$10,000¹; however, this may be the exception rather than the rule. Reports such as this may tend to overly concern organizations that referral programs are too expensive to use effectively. The current study confirms that referral programs are used quite often in organizations and that while they have varying degrees of success in assisting with filling different positions, they do offer organizations a viable method to include in the mix of recruiting methods employed.

¹ Keith Swenson “Maximizing Employee Referrals”, *HR Focus*; New York; January, 1999.

Building Employee Referral Programs That Work

By Joseph Slavin

Thanks to the most competitive job market in 30 years, enlisting employees in the recruiting process is a smart – if not essential – practice. Candidates hired through referrals stay longer and assimilate faster than those hired through other methods, including the Internet and headhunters. While many companies have employee referral programs (“ERPs”) outlined in their HR manual, awareness of and participation in them can unfortunately be very low.

Some organizations have wisely increased finder’s fees to make these programs more appealing. And, we’ve all read more than a few stories about companies offering generous grand prizes, such as sports cars and luxury vacations, to lucky employees who successfully refer top candidates. While the lure of sizeable bounties and flashy prizes can be excellent ways to generate excitement and encourage referrals, there are other ways to build a top-notch employee referral program.

Following are suggested techniques for building an ERP capable of doubling or even tripling the success rate of your current ERP:

1. Start at the top: If senior management is not committed to the success of the program, it won’t work. ERPs must be clearly communicated from the top down to make it clear that it’s everyone’s job to actively search for talent.

2. Keep rules to a minimum: Complex submission rules, coupled with six-month length-of-stay requirements, are the easiest way to limit participation in ERPs.

3. Let everyone participate: Why exclude senior managers from referral programs? Doesn’t it make

more sense to share a \$1,000 referral fee with an SVP than to pay a contingency search firm \$25,000? Also, consider allowing HR staff to participate. As long as they are not directly involved in hiring for a specific opening, why not benefit from their network of contacts?

4. Involve and reward outsiders: Alumni are great sources for talent, as are vendors, customers and people who have turned down offers. How about your employees’ friends and former business associates? They can all lead to top candidates, so it’s advisable to involve them in the program and reward them for their efforts. Casting the referral net a little wider can yield better results.

5. Give VIP status to resumes: Pay special, fast track treatment to resumes referred by employees. Employee-referred candidates should be called quickly. (Find the time to do this by following the next rule...)

6. Let employees track progress: Rather than bombard the recruiter with calls and e-mails to see if a friend has been hired, let employees check the status of referred candidates themselves on the Web. Along the same lines, send employees e-mails to let them know how their referred candidate is advancing in the hiring process.

7. Make it easy to refer: Employees should be able to look at available openings and “push” them out to their friends with the click of a mouse. If they need to copy and paste job descriptions into an e-mail, your referral numbers could suffer.

8. Promote constantly: Weekly “hot job” e-mails combined with e-mails announcing the list of employees who have referred successfully, are great

ways to keep ERP momentum strong. Motivate staff with company-wide, congratulatory emails from the CEO about those who took the time to make referrals. Posters on the refrigerator and in the bathrooms work well too.

9. Pay a decent bonus: These days, \$1,000 is a good minimum bonus. Bonus for top jobs; however, can go upwards of \$10,000. More than \$10,000 just might be too much, as employees begin to get skeptical that the bounty will ever in fact be paid.

10. 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.

Joseph Slavin is the general manager of Referrals Inc.'s e-recruiting business unit. Joe has more than 15 years of management and marketing experience. During his ten years with TMP Worldwide (parent company of Monster.com), Joe developed and managed award-winning recruitment and directory marketing campaigns for clients such as IBM, Merck, Sony, Morgan Stanley - Dean Witter and PricewaterhouseCoopers. In his last position as President of TMP's New York division, Joe helped his clients successfully leverage the Internet as an essential recruitment tool in the tightest job market in decades.

Reeling Them In: The Art of Employee Referral Programs

By Anrea C. Poe

October 2000

There is no single more effective recruitment method than the employee referral. A high touch recruitment strategy, employee referrals cast a net more narrow than traditional recruitment methods. So it's no surprise that they result in higher rates of recruitment and retention.

Candidates recommended by employees tend to be better qualified than others. That's because employees pre-screen candidates, saving HR professionals time and money. Plus, employees bring an extra level of expertise to the recruitment process that recruiting firms cannot. They give candidates the low-down on the company culture — both the good and the bad — so new recruits come in with eyes wide open.

Because these referrals are so successful, HR professionals should view employees as their recruitment partners, an invaluable resource to be tapped when in search of staff. Although most companies have employee referral bonus plans in place, few put them in the spotlight. That's a mistake. In this booming economy, everyone needs workers, and fast. Employees are the single best way to get them.

Get The Word Out

HR often undersells its referral programs. Employees who don't know about them can't use them. Even those who know about them may forget or ignore them. If recruitment is a priority, there's nothing more important than broadcasting your referral program. There are some practical ways to get the word out about the importance of the employee referral award program:

- Mention the program and its awards in every company-wide publication.
- Post flyers on bulletin boards.

- Send periodic company-wide e-mails reminding employees of the program.
- Stress the importance of the program to department heads. Ask managers to bring up the program in meetings.

Rewards: Reality Check

No longer can you afford to pay a couple of hundred bucks to an employee who makes a successful referral. Jeeps, luxury vacations, and other high-end prizes await those who work as matchmakers at many companies. Referral bonuses can even reach the \$10,000 -plus mark. Your workforce is probably pretty savvy about the awards other companies offer. Of course, smaller firms just can't keep up. And your employees won't expect you to. However, although the award doesn't have to be a fortune, it should turn heads. Be sure that the bonus is commiserate with the work involved for the employee acting as recruiter.

Review your current referral bonus program. Is it up to date? Does it offer enough of an incentive to make it worth an employee's while to recruit on the company's behalf? If what you're offering seems too small for the economic climate, think about increasing it.

If new funds aren't available to add to the program, think about adjusting your existing recruiting budget.

Remember: employee referrals programs are the most cost-effective recruitment strategy so they are well worth funding.

Just look at Merrill Lynch, which stepped up its referral plan. The company estimates that by

increasing bonuses for referrals (up to \$20,000) it saved \$2.5 million in recruiting costs its first year.

Not every company can afford big cash payouts immediately upon hiring a new employee. If you don't have enough in the coffers come hiring time; you can structure payment over time. That's what one small company, the NPD Group, a custom research and marketing firm in Port Washington, New York, does.

Its \$500-2,500 bonuses are paid out over the course of six to eighteen months.

But be warned: there's downside to paying over time. It diminishes the excitement and may make the program slightly less appealing than if the referral paid off immediately. That's a lesson MasterCard learned. The company used to pay for successful hires after 60 days, but did away with the waiting period last year. Since then, referrals have increased. However, it is still better to offer a generous award over time than it is a less generous one upfront.

Creative Awards

It's not just cash that reels in new recruits. Employees are also be motivated by other types of awards. If you're not sure what employees want, ask them. Send out a survey to get input. Leave blank space where employees can write in some ideas of their own. They are likely to come up with ideas you haven't even thought of.

Take those results and do a feasibility study. Can you offer what the employees want? If not, you may need to modify awards. That's all right. Employees don't expect you to offer exactly what they've proposed, but they will appreciate you tak-

ing them into consideration when designing the awards program. The idea is to pull employees into the process and make the referral program something they want to be part of.

If you find little consensus among employees on what awards are most appealing, think about designing a flexible rewards program. Make several different kinds of awards available, giving employees a variety of options to choose from when selecting an award.

Another way to attract attention and jump-start motivation is to run a company-wide contest. Reward the person with the greatest number of successful referrals at the end of the year with a grand prize that goes beyond the cash awards they've earned for each new hire. This prize should be something big like a cruise, a shopping spree or an extra week's vacation time. And when you give out the award for the most successful referrals, promote it like crazy. Be sure no one in the company hasn't heard about the grand prizewinner. That will increase interest in the program the following year.

Something For The Effort

Although finding qualified new hires is the goal of any employee referral plan, HR should consider showing its appreciation for less successful recommendations. The bonus need not be expensive. What you're looking to do is show your appreciation for the effort. By doing that you'll stimulate interest in recruiting and are likely to increase the number of candidates that come through your door.

In an effort to encourage employees to make referrals, the NDP Group pays out small awards

even if a candidate isn't hired. The program is simple: if an employee refers someone who gets interviewed, they receive a small token of thanks, like a \$5 Blockbuster video gift certificate.

Win-Win

The reason so many companies are hopping onto the referral bonus bandwagon and making the investment in these programs is simple: they work. Just take a look at one company's numbers: Before MasterCard prioritized its employee referral program, these referrals accounted for 10% of new hires.

Today, employee referrals account for 42% of new hires.

Referral programs are win-win. Employees not

only get cash and prizes, but they get to be part of the team shaping the company. HR gains qualified recruits with minimal expenditure of time and money. And not only do recruitment rates go up, but so too do retention rates. That's because workers brought on board by employees come in well-prepared, knowledgeable about the company and arrive with a built-in professional network, all things that foster what every HR professional is hoping for: productivity and longevity.

Thanks to Andrea Poe for contributing this article. It is intended as information only and is not a substitute for legal or professional advice. Ms. Poe is a freelance writer specializing in Human Resource Management issues.

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Do Employee Referral Programs Really Work?

By Mary Cheddie, SPHR

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In today's tight labor market, many firms are reporting job vacancy rates over 25%. With employers fighting for the same few resources, many firms have added or increased the value of their employee referral programs.

Do employee referral programs really work? In speaking with over 100 HR professionals about their organization's referral programs, the answer was an overwhelming YES! Most of these companies would prefer giving up any other benefit before reducing or eliminating their referral program.

Angela Greenfeather, Recruiting Operations Program Coordinator of Sabre Inc., Ft. Worth, said their employee referral program is one of the most inexpensive and effective recruiting methods. In the first 24 months, the program generated over 7,000 resumes. How does Sabre do it? They award cash (from \$100 - \$1,000 based upon position) to the referring employee. In just over two years, the program has paid out over \$450,000, while still saving Sabre almost \$1,000,000 in recruiting expenses. The employee referrals are paid within 30 days of the new hire start date.

Sabre has now taken their program to the next level by introducing an Internet strategy called *Networking@Sabre*. This Internet-based program is designed to attract candidates to the firm by connecting them to an employee (a "Sabre friend") who shares the same career objective. By accessing the icon on the Sabre career site, the candidate may ask questions about Sabre. Their questions are directed to a Sabre Friend. The Sabre Friend contacts the candidate within 48 hours of receiving the questions. After dialog, the

Sabre Friend submits the resume of the potential candidate to the firm and then is eligible to receive the employee referral. Sabre Friends and the employee referral program generate over 41% of all hires.

At The Associates, in Irving, Assistant Director of Human Resources Nichole Moseley has seen employee referrals increase tremendously. Employee referrals once accounted for a "mere" 35% of their applicant base, with 28% of those applicants being hired. With some program enhancements made May 1, 2000, that program now is responsible for 56% of the hires. The Associates pays a referral bonus of \$500 for general employees and \$1,500 for exempt, with one-half paid when the person is hired and the second half paid in six months. For information systems employees, the referring employee receives \$6,000, with one-third paid at hire and the remainder paid after one year. Ms. Moseley said they also offer special referrals based on specific business needs.

Rosalinda Cunningham, PHR, Director of Human Resources and Sara Bates, HR Administrator for Hilti, Inc. in Tulsa, offer a two-tiered referral bonus system of \$300 paid at hire and another \$300 at six months. For more difficult positions, as much as \$2,000 will be paid for a referral.

Jane Goertzen, Director of HR for Crete Carrier Corporation in Lincoln, NE, implemented a new employee referral bonus program this year. She offers a \$1,000 referral bonus for drivers and another referral bonus for other positions.

At Stewart & Stevenson in Houston, 30% of all

openings are filled through their employee referral program, according to Roger Walter, SPHR, Human Resources Operations Manager. Payouts are \$250 at hire and \$500 after six months. Mr. Walter said that the only down side was having more "non-qualified" referrals, but the overall number of resumes compensated for that problem.

Blue Cross Blue Shield of Louisiana strongly believes that employees are their best recruiting source. According to Lynne Bourgeois, SPHR, Director of Human Resources, her firm offers a referral bonus paid in two increments. The referral bonuses are position based, ranging from \$250 to \$1,000 paid after 90 days and another \$250 paid after six months.

Kathleen Fenninger, SPHR, Vice President Employment Services, Dynergy, helped conduct a survey of Houston employers. The companies that participated in the survey reported that their employee referral programs reduced their cost per hire between 75% and 90%, found that the programs have been a great morale booster, and the hires were more reliable and less likely to leave. Some of the companies included in the survey were MasterCard Global IT, Pitney Bowes, Freddie Mac (Mortgage Finance), Fidelity Investments, Fujitsu, Mastech, Texas Instruments, 3Com Corporation, McDonnell Douglas, and Enron. In addition to cash bonuses, many of these companies also have drawings for "super" prizes such as trips (England, Hawaii, Caribbean), automobiles, and a one-year luxury car lease. EDS (Electronic Data Systems) recently announced that employees who refer a new employee would be entered into a drawing for a new car (in addition to their cash referrals).

Kevin Wilson, SPHR, Consultant for PeopleResources.Net has a client who offers \$1,000 for the first employee referred, \$2,000 for the second, and so on. At the end of the year the employee who referred the most new employees receives an extra \$10,000.

With the data supporting the effectiveness of an employee referral program, where do you begin if your firm doesn't currently support one? Look at your recruiting/employment costs and number of hires to determine what you've spent year-to-date (or use last year's data) and your average cost per hire. Using the following assumptions: you do not currently have employee referrals, 33% of your hires will be generated from the program, 300 employees were hired last year, the average cost of hire is \$7,500, and your referral bonus will be \$1,000.

Example:

- 300 hires x \$7,500 = \$2,250,000 (total hiring expenses)
 - 100 hires through traditional hiring (100 x \$7,500 = \$750,000)
 - 100 hires through the referral program (100 x \$1,000 = \$100,000)
- a savings of \$650,000

Use this example with your actual numbers and you are ready to present your recommendation to your supervisor. In the example above, an employee referral program would save your firm \$650,000.

Once you have your firm's support to go forward, think through the process. How will you communicate it, what forms will you require to generate the referral payment, will you use a two-tier approach or a one-tier, will you have different referral amounts for certain positions, how will you track referrals, and how can the whole process be expedited? In going forward, first and foremost, TRACK the results. Document, document, document. Communicate the results to your supervisor so that they can see the measurable difference the program makes. Post or publicize the employees who are receiving referral bonuses so that others can also get on the bandwagon.

With employee referral bonus plans working so well for many companies, they will not work for an organization that does not foster an environment for the employees. Employees will refer their friends and family to an organization that they are proud of and where they feel valued. If your firm doesn't have a culture conducive to the employee, a referral program will (more than likely) not work for you.

Lead the charge! Tap into your best resource (your employees) by creating and utilizing an employee referral program. Ms. Greenfeather enthusiastically says, "Our employees are a vital resource when it comes to recruiting great talent. I am pleased with the number of participants the program has received and I look forward to seeing this number grow."

Don't miss out on this method to find and keep your industry's best talent.

Thanks to Mary Cheddie, SPHR of the SHRM Employment Committee for contributing this article. It is intended as information only and is not a substitute for legal or professional advice. You may contact Mary Cheddie, SPHR, Vice President, Human Resources, at FirstWorthing, 8144 Walnut Hill Lane, Ste. 550, Dallas, TX 75231, or via e-mail at mcheddie@firstworthing.com.

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