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Employee Referral Matters, It Really Does!

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Abstract

The case study revolves around the research and analysis conducted by Rosalin, an HR employee of a consulting firm. She worked around the existing employee referral framework and its current statistics to analyze the prevailing gaps and prepares recommendations to solve the same. Employee referral is considered to be the best source of recruitment among the sources of recruitment available to sourcing team. For various reasons it does not work for many companies.

Learning Objectives

- To compare employee referrals program vis a vis other sources of recruitment.
- To analyze the factors leading to success of employee referral programs.
- To design employee referral program.

The discussion unfolds how employee referral programs are better than other sources of recruitment. How can employee referral programs be made more effective? How to measure effectiveness of employee referral programs?

Keywords: Employee Referrals, Recruitment, HR Metrics, Referee (prospective candidate), Referrers

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Rosalin is a well-recognized employee of Business HR, an Indian IT consulting MNC. The company has a remarkable history of 20 years and has approximately 23,000 employees in India spread across major cities. The management of the company believes in best talent management practices. Recently, the Company had a meeting of its top management from India to apprise them on HR strategies for the forthcoming year. The CHRO and other Board members reviewed the performance of the HR department in the past one year and dwelled on the plan for the upcoming year. Rosalin's boss was supposed to be present for briefing the top authorities. Due to some reasons her boss could not make up for the meeting so Rosalin had to present the same to the members. One of the important components of her presentation was about different recruitment strategies applied by the HR Department at her unit in Bangalore.

Having a background of talent acquisition, Rosalin did an impressive presentation elucidating the various recruitment sources such as direct recruitment, agency recruitment, internet/ job portal recruitment and employee referrals. She also focused on the sources of recruitment, the advantages of each source and the recruitment strategies adopted by her unit in Bangalore.

Post the presentation, one of the members posed number of questions out of inquisitiveness regarding her presentation and Rosalin answered each question with utmost specification and clarity. The other member asked her views on the best source of recruitment for the organization. Rosalin confidently expounded the referrals as a best sourcing strategy. Chairman commented what makes her say so? The Chairman asked her the reason behind her recommendation.

Rosalin gave them insights from HR reports which revealed that a position gets filled in less than 30 days through referrals as compared to job portals taking 55 days and other sources taking 40 days. After one year, the retention of the referred employees is 46% compared to 33% from job sites and 22% from job boards. After two years, retention of referred employees is 45% compared to 20% from job boards. Referral hires produce nearly 25% higher profit than hires from other sources. They can produce between 24%–135% more profit on an average. If an employee produces $150k in revenue, that translates to $37.5–$202k in additional annual profit.

Exhibit I: Few Insights of Employee Referral

Average employee will have 150 contacts on **social media network**

Highest **applicant to hire** conversion rate Only 7% apply but accounts for **40% of all hires**

Begin their position after **29 days**
39 days via job boards
55 days via career sites

Greater Job Satisfaction
46% stay over 1 year
45% over 2 years
47% over 3 years

Consultants/ Analyst
Most Hired Position

67%
Employers & recruiters agree that the recruitment process was **Shorter**

Source: https://www.jobvite.com/sourcing-and-nurturing/4-reasons-to- invest-in-employee-referrals

Rosalin further explained few facts of employee referral practices as shown in the Exhibit I above. An average employee will have at least 150 contacts on social media network which can be used for creating a pool of candidates. The applicant to hire conversion rate for referral is only 7% but it accounts for 40% of the total hires, while in terms of other sources the conversion rate is maximum 25% and a minimum of 5%. The candidates hired through referral joins the organization within 29 days while it takes 39 days for candidates through job boards and 55 days for candidates through career sites. Rosalin also emphasized that it is not just hiring efficiency that is achieved through referral but there is highest level of job satisfaction among employees hired through referrals. Her reports say 46% of the referred employees stay over at least 1 year with organization. While 32% stay for 2 years and 22% for more than 3 years in the organization. She further pointed out that consultants and analysts are the most frequently hired positions through referrals. Rosalin also mentioned that 67% of the recruiters and employers agree that recruitment process was shorter when hiring happens through referrals.

After a successful meeting Rosalin recalled that her company implemented employee referrals, much before competitors (refer competitors' practices Appendix 1) thought about it, in the year 2007. The rate of conversion of referral at that time was just 3% though 25% of the candidates were sourced though referrals. The company then designed four steps' strategy in implementing employee referrals which included stages like planning, designing, promoting and maintaining (Exhibit II). During the planning stage they studied thoroughly to understand the hiring needs and existing culture. Thereby laying down a measurable target for the team for hiring and then deputed responsibilities to Sanyukta from the resourcing team. Sanyukta designed the referral scheme and made a formal policy. Rules were kept simple and user friendly. Soon it was automated through a tracker system. Rewards (monetary and non-monetary) were laid down for the employees. The program was launched officially with innovative and attractive punch line, posters and promotions. Since then and till now resourcing department has maintained the program by keeping it fresh, engaging partners, celebrations, points metrics and having a measurable criterion.

Exhibit II: Stages of Implementation: Employee Referral programs

Source: Authors' Representation

Rosalin wanted to learn more facts about referral scheme for her organization. So, she first decided to conduct a research about the existing employee referral framework and the current statistics related to referrals in her function.

To have a better understanding of the employee referral scheme, Rosalin identified and analyzed different stakeholders involved in the process of employee referrals. The objective was to understand the problems and their possible solutions.

The stakeholders of employee referral schemes identified were:
- Recruiters-They are the people who post the requisitions on the portals, communicate the open positions and act as Single point of Contacts (SPOC's) for clarification of any doubts and concerns of the employees.

- Employees-They are the referrers who bring fresh talent in the organization by way of referrals.

- CRM (Candidate Relationship Management) Team-This team helps in the selection procedures by coordinating and scheduling interview rounds and relevant tests.

Presently all jobs posted on external job portals are posted on the internal job portal too. Referrals by employees are uploaded according to the suitable requisition. Along with the referrals made, certain basic information (for e.g. current profile) about the referee (prospective candidate) needs to be filled in too. A particular web page on their internal website is dedicated to referrals which is accessible by all employees. Employees can directly use Company's website to browse the referral page and look through requisitions.

Based on the stakeholders identified, the current service level agreements and the referral process was mapped out. Following are some pointers based on which referral program was designed:
- All referrals to be uploaded on the software only and not to be sent to the recruiters on personal e-mails.
- Recruiters have to update the referees' status on the internal portal within three working days, post the HR Interview (1st stage). The update is either of selection of the candidate for the next round or rejection.
- Updates on business interviews need to be made as and when the interview and results are finalized.
- All employees are required to create a unique username and password for all referrals to be made.
- Employees are provided referrals bonuses within three months of joining of the referee.
- HR Managers/ Recruiters are not allowed to make referrals.
- Each referral made is valid for a period of six months only.
- Payment of referral bonuses is made according to the laws of the country in which the job position is available.
- If two referees/ employees have made the same referral, the employee who has made the referral first is eligible for the referral bonus.
- Open positions are communicated through a weekly newsletter with the necessary details of each job along with a link for submitting the relevant C.V.
- E-mails through business leaders and recruiters are sent with information to all employees.

Rosalin dug deep into the problem and found a report from the Research and Technology team about the referral percentages over the last three years, different hiring levels and employee referrals for each position. It also included information about the different positions from where the referrals come.

The analysis of this report helped her conclude the following important pointers which was a wow moment for Rosalin:
- Maximum referrals for hiring at the level of Associate Analysts and Analysts came from the same level of employee i.e. of Associate Analysts and Analysts.
- Maximum referrals for hiring at the level of Assistant Managers and Senior Analysts came from Associate Analysts and Analysts.
- Maximum referrals for hiring at the level of Vice-President came from Assistant Managers and Senior Analysts.
- Maximum referrals came for the position of Associate Analysts and Analysts and least referrals came for the position of Executive Managers.

To arrive at the gaps and analyze them it was necessary to understand the perceptions and difficulties faced by stakeholders involved in the process of referrals.
Rosalin conducted discussions with few employees in her function. She also interviewed the recruiters and business leaders of each service line to gain their perspective on the prevailing issue and their take on resolving the issues pertaining to employee referral scheme.

She spoke to few employees and they were frank enough to give her inputs. Shashank from the Analyst team said he was unaware about the referral platforms, perhaps which led to a lower number of referrals being received. Another employee from Analyst team told her that they face difficulty in navigating through the job requisitions and finding the right requisition for their referrals thus end up sending irrelevant referrals leading to their rejection. He also highlighted that they face difficulty in tracking the status of their referral, a major demotivation to apply for referrals. Although the system in place is functional to provide status updates, employees frequently do not obtain any status check of their referral as they send referrals directly on e-mail to the recruiter which doesn't get uploaded in the system, leading to higher frustration and lower engagement in the referral process. She was surprised to hear from Suzan, a Project Team Lead that she was unaware about the referral policies and processing of the referral bonus. Few other also said they were not aware about the rewards they are eligible for and the duration post which they will receive the referral bonus. With few more discussions Rosalin realized there were a chunk of people in the organization who haven't given a single referral even though the company immensely believes in the strength of referrals as an effective source of recruitment.

Rosalin scheduled her focused group discussion with the recruiters. Sanyukta said her emails are sometimes flooded with references sent by employees, without proper subject line or sometimes even though when there is no vacancy. At times the profiles are irrelevant and she doesn't know from where to start sorting them along with other important tasks in hand. Although this is not the set procedure, she ends up balancing the system and e-mails which takes up a lot of time and effort. Sanyukta's assistant also informed that with referrals coming on e-mails of recruiters instead on the system, there is no automated update sent leading to employees constantly checking with recruiters to find the status of the referral and keep updating the employee. Recruiter needs to constantly be in connect with the referrers to provide updates.

A study by Rosalin revealed some interesting numbers. 35% of the employees refer to help their friends while 32% of the employees do to help the company. 26% of the employees refer to be seen as valuable employee of the organization. And only 6% of the employees refer for monetary incentives. Rosalin got her meeting arranged with Business Leaders to know their perspective. The meeting concluded indicating that employee feedback is necessary for further action. The employee feedback on referral schemes revealed the following facts:
- Around 50% do not know where to apply for referrals.
- A major proportion of employees i.e. 65% face difficulty in navigating through the job requisitions and finding the right requisition for their referrals.
- 60% face difficulty in tracking the status of their referral.
- A major section of employees i.e. 70% are unaware about the referral policies and processing of the referral bonus.
- 22% of the employees haven't uploaded any referrals.

The Associate Partner stated that the HR is required to have a personal connect with the employees. He felt that activities such as floor walks can make a huge impact. A personal connect with the employees while informing them about the referral goals and activities will engage them further in the process. Senior Manager from BFSI division believed that recognition can work for employees. Referral recognition wasn't practiced in Companies, but it is believed that recognition can motivate employees further, thus including this aspect will give the referral programs an extra edge. As the employees are not really aware about the

referral campaigns, the system and the bonuses in place, increased marketing and branding about them will catch employees' attention and motivate them to send in referrals. Rosalin was appreciative of the fact as it came from senior members of the organization.

Based on the inputs collected by each target Rosalin divided her key findings/ gaps into 3 major buckets which were to be addressed individually and then holistically (Exhibit III). The three buckets of gaps found were:

Exhibit III: Gap Analysis

Source: Authors' Representation

1. Process
   - System is not optimally utilized.
   - Difficulty in matching resumes to requisitions.
   - Single Point of Contact charts are not updated.
2. Branding
   - Low awareness about referral activities.
   - Low awareness about bonuses.
   - Low awareness about successful referrers.
3. People Engagement
   - Communication gap.
   - Non-participation from a certain set of employees.
   - Unawareness about procedures of referring.

Sanyukta's team also developed a plan to measure employee referral schemes based on suggested ways to measure (Appendix 2). The key highlights were as below:
   - Employee referral rate: The overall percent of hires who came from referrals.
   - Referral to hire ratio: The percentage of the referred candidates that were hired.
   - Cost per hire: Direct and Indirect expenses spent on hiring.
   - Time for hire: Turnaround time taken to fill up the vacancy.

A few days later Rosalin was reading the report on her desk to be forwarded to the management and she was convinced with the Employee Referral Scheme in her organization. She said to herself **"Employee referrals Matters… it really does!"**

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Appendix 1

External benchmarking was also executed and referral data was collected from various firms.

	Google	Accenture	Dell	Wipro	TCS
Total No. Of Employees	Globally=12 000-13000 India=200-300	20000	15000	Confidential	Confidential
Referral %	32%	65%	30%	Confidential	Confidential
Conversion %	3:10	6:10	2:10	Confidential	Confidential
Criteria of posting jobs	All jobs are posted on the external portal and internal portal	All jobs are posted on the external portal and internal portal	Niche skills-Open to internal and external portals to all employees General skills-Service Line specific, focused group are sent requisitions	All jobs are posted on the external portal and internal portal	All jobs are posted on the external portal and internal portal
Referral Activities conducted	Continuous status updates of referrals, floor walks, referral drives	Town halls, email communications, Leadership connects. Mobilizing the referral system Referees can choose their referrer through LinkedIn, post attachment of C.V	Referral e-mails, floor walks	Continuous personal and automated status updates, referral e-mails	24x7 referral help desk with a toll-free number.). "Rapid Hire" process where resumes were collected at referral desks that provide. "On the spot" screening early bird & spot prizes .
Referral Bonus	Confidential	Confidential	Associate managers-Rs.7500 Senior Managers-Rs.40000	Confidential	Confidential
Is recognition given importance	Yes	Yes	Yes	Yes	Yes
Turn Around Time to reply to referrals	1 week	1 week	2 weeks	2 weeks	1 week

Source: Authors' Primary Survey

Appendix 2

Suggested Matrix and Measurement for Employee Referral Programs.

Quantitative Measurements
- Employee referral rate: The overall percent of hires who came from referrals
- Participation rate: The percentage of your employees who took part in your employee referral program in a certain timeframe
- Referral to hire ratio: The percentage of the referred candidates that were hired.
- Cost per hire: Direct and Indirect expenses spend on hiring
- Quality of hire: Qualification and ranking of alma mater
- Engagement and performance: Engagement percentage and performance records
- Retention of employees: retention percentage and attrition analysis
- Time for hire: turnaround time taken to fill up the vacancy

Qualitative employee referral metrics are:
- Hiring manager satisfaction
- Candidate satisfaction
- Referring employees' satisfaction.

Source: Authors' Representation