
Referral Schemes

Hefty pay hikes. Lucrative stock options. Generous bonuses. These are incentives that HR managers have often used to retain employees. Now, in their battle against employee attrition, employers are adding an entirely new weapon to their arsenal; employee referral schemes. Invariably, companies are discovering that employee referral schemes also help boost retention rates.

This new evidence should force HR managers to view employee referral schemes in an entirely new light. Of course, such schemes are not new. In many organisations, employees are offered attractive cash incentives to identify potential recruits from among their former colleagues, relatives, friends and acquaintances. However, some companies now say they have data to prove that employees who join through such schemes are likely to stay far longer with the firm than those recruited through other modes, such as advertisements or placement agencies.

In a study spanning 288 employees working across 20 industries, it was found that such schemes are likely to result in "lower cost per hire than other means of recruitment, give greater job satisfaction for referred employees, yield higher retention rates, and result in faster assimilation of the new recruits".

There may also be another hidden benefit of using referrals. Although it is yet to be proven statistically, many experts feel that an existing employee who has referred other candidates to join will feel a stronger affinity towards the company and, therefore, be inclined to stay on longer.

But why are employees hired through a referral programme staying on longer? Most reasons are fairly intuitive. For one a referral programme ensures a better fit between employer and employee. In a normal recruitment process, the interviewer and the interviewee generally get to interact with each other for about 9-12 hours. But the referring employee has usually spent a lot more time, maybe even years, with the candidate that he is referring.

For referral schemes to be successful in companies, it is vital that an HR department's right to say no to any candidate - even if he/she has been referred by a senior management member - is respected.

But that's not the only risk with such referral schemes. There is also the danger of employee salary cartels. Referral schemes tend to follow a predictable pattern: interest tends to peak sharply at the beginning. That often creates its own set of problems. As a result, companies end up rejecting a large number of good referral candidates, because they don't need so many people, thereby dampening the enthusiasm for the scheme.

Instead, the sensible way for a company trying its hand at this scheme is to test a small batch of referral recruits, just to make sure that the recruits fit the requirements. (Most companies' place an initial cap of 20% on the number of referral recruits they hire.) During this trial period, experts

say it is best to evaluate the performance of these referral recruits, before deciding to raise the percentage of recruits through the referral route.

But despite its success, it isn't a healthy practice to hire more than 50% of the total recruits through referral schemes. That's because "like attracts like". The tendency of employees is to refer prospective employees who are similar to them. If this trend continues for a long time, there is the real danger of the talent pool of the company becoming uni-dimensional, say HR experts.

The watchword therefore is balance. Employee referral schemes are useful if used in tandem with other conventional recruitment avenues. Nevertheless, going by the initial success of these schemes, it's time that more companies started turning their employees into part-time headhunters.

Individually what does it mean to the stakeholders?

Job seekers

Asking friends and co workers for referral to jobs has always been an important technique for searching for jobs. According to surveys conducted 40% of recruitment is done through referral. Advantages are numerous. You can control and target the organisation. An existing employee can tell you more, about an organisation and the job, than a recruiter. When you join that organisation, you will already have an acquaintance with your referrer.

Referrers

This is a smart way to make more money. Today's tight labour market has forced companies to adopt all sorts of strategies for filling their job vacancies. Now a growing number of companies are enlisting their employees as recruiters. And they're paying them handsomely for it. Use this opportunity and become a recruiter for your own company. Your identity is completely protected.

Employers have long used cash incentives to reward workers for recruiting their friends and former colleagues. But in the face of tough competition for scarce employees, most notably in the IT sector, companies are trying to add glitz to employee referral schemes by offering holidays, cars or even stock options in addition to cash.

Employers

Recruitment through employee referral is not only beneficial for employees but it serves organisations well. First and foremost it is very cost effective. Hiring through professional recruiters and headhunting agencies is way more expensive. Also candidates are more likely to accept an offer and they tend to stay longer because they have an instant network to fall back on.

Key Points

1. **Make it specific**
2. **Make it measurable**
3. **Make it for a limited period**
4. **Make the rewards realistic, achievable and important enough to bother**
5. **Communicate the end of the programme and the results**