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# Human Resources Marketing and Recruiting: Essentials of Employee Referral

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## Abstract

This chapter covers an overview of the description, implementation, and management of an employee referral program. This is an important recruitment tool, and so it is crucial that any company looking to introduce one or to learn more about how they work initially researches the processes, benefits, and risks involved.

The purpose of looking at an employee referral program is to outline the main areas to consider and dedicate further research before committing to an organization-wide launch.

The report used current reported methodology and academic findings as well as the results of studies carried out into this field of staff recruitment, incentive, and retention.

The chapter shows that this type of program can be extremely successful if managed correctly and that employees are fully aware of the processes of how it works and how to access the program and the benefits to them as participants.

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It also looks at the risks to consider and safeguards to have in place with reference to certain areas.

The chapter demonstrates that with thorough planning and communication, an employee referral program is an incredibly efficient tool, although one which should be considered as whether it is a fit to a particular company and the way it operates.

Undertaking this introductory and feasibility investigation into an employee referral program will help any recruitment expert or company owner in making a decision as to the positive outcome which can be achieved through the integration of such a tool into their human resources recruitment and retention suite of methodology.

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**Keywords**

Recruitment • Employee • Referral • Incentive • Program • Loyalty • Retention • Economy • Human resources

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**Introduction/Overview**

One of the most important elements of any business is the workforce – the staff who are there each day to make a company a success. It is sometimes not easy to motivate and manage a team, and so there is a need for a policy to inspire them to remain loyal to their brand, build trust in them as people, promote confidence in their worth as employees, support them in their ideas and decisions, and communicate clearly strategies and corporate vision. A successful industry influencer will engage, educate and train, empower, and lead their employees by example.

One way to engage and empower is to offer defined and structured incentives through different policies and programs. One which should always be part of an inclusive team approach is an employee referral program.

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**What Is an Employee Referral Program?**

An employee referral program (ERP) is an internal recruitment approach where an organization incentivizes current employees to promote, attract, identify, and refer possible candidates from both their social and professional networks to current employment opportunities at their organization. ERPs are considered to be one of the most impactful recruitment strategies used by every level of company and type of industry today. When planned and executed correctly, an ERP can produce significant cost efficiencies as well as provide organizations with better quality recruits.

ERPs are widely considered as sound human resources (HR) and recruiting business investments because they provide a nonrevenue-generating department the highest performing cost-effective means to recruit talent in a very efficient way. They do this while also providing organizations with quality recruits which

come from their most trusted contacts – their employees. The added value which ERPs provide keeps employees who participate engaged as well as encouraging a distinct amount of retention capabilities. As an example, when an employee successfully refers a friend or colleague to their company, they not only feel a sense of contribution to the welfare and success of their organization, they also gain the positive feeling of helping someone within their own network to find a good job.

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## People Perspective

When looking at the personal benefits of such a scheme, ERPs offer employee recognition as well as the ability to boost employee morale when implemented within a comprehensive employee engagement strategy. They utilize the networking skills of staff in order to grow a business for the future as well as attract new customers. Sound ERPs foster a friendly yet competitive spirit among employees. Those who already work for a company are one of the best and most cost-effective advertising and recruitment resources, and a solid ERP builds on that foundation (PR Newswire 2014).

By providing monetary and nonmonetary rewards as well as a sense of contribution to the success of the company they work for, ERPs encourage current employees with both short- and long-term incentives to remain with the company for an extended period of time. Many studies have shown that the benefits of ERPs outweigh alternative ongoing investment made by companies by attributing the success of this type of program to key metrics such as the quality of hire, cost per hire, and overall employee morale.

Most ERPs are designed to have a desirable and positive effect on employee recruiting as well as employee retention; however, there are personnel-related risks to ERPs that companies should be aware of. The most likely is the recruiting of undesirable employees through the ERP. However, this risk can be effectively mitigated through ensuring that all potential employees are properly vetted through the HR department and then go through the same training as non-ERP employees are required to attend. Some staff may be discouraged when they discover and refer potential employees and then are not eligible for the reward because their recruit did not make it through the vetting process, but if an ERP participant refers qualified leads, then this should not prove to be a huge issue.

Friendly competition within the ERP can create a positive and healthy work environment; however, the ERP will need to be constantly monitored to ensure that the friendly competition does not lead to resentment among employees, which in turn can create hostile work environments. Workplaces may need to set limits on the maximum reward an individual can achieve, either overall or during a certain time period. Workplaces may also need to create restrictions on who can participate in the ERP. As an example, a workplace may restrict the recruiting department employees from participating in the program, since their main job is to recruit potential employees and ERP bonus programs may not be appropriate for this department.

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## Economic Perspective

ERPs can offer both monetary and nonmonetary rewards to influence and encourage current employees to actively promote their company's talent brand and employer value proposition. The goal is to incentivize employees to continuously participate in the recruitment process and to encourage proactive networking on behalf of their company to discover and refer great talent. ERPs have grown more useful with the evolution of technology over the last few years and are primarily utilized by the employees through social media – more specifically professional online networks such as LinkedIn (LinkedIn Talent Solutions 2013).

Time is money and this is especially true when it comes to efficiently recruiting top talent to a forward thinking and future proofing organization. ERPs allow recruiting departments to efficiently use their time and resources when choosing candidates for open positions by creating a way for employees to become marketing extensions for their company's talent brand. This means that employees are in fact actively marketing their employer, searching for and initially screening potential candidates for open positions, as well as providing valuable candidate pipelining work for future vacancies. Many HR and recruiting departments are usually small in comparison to the workforce they support. With the implementation of an ERP, these departments can raise and promote their organization profile and achieve much more reach in terms of their recruitment marketing efforts and targets.

ERPs are not always all necessarily geared toward attracting new employees. ERPs can also take advantage of the marketing and networking skills of staff in order to attract new customers. ERPs which are designed to attract either customers or employees also help raise employee awareness about their workplace and enhance feelings of unity and respect among coworkers. The costs associated with these types of ERP are greatly overshadowed by the profits and economic growth that they bring in with new customers and increased sales (Taulbee 2010).

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## Operational Perspective

Designing a successful ERP requires communication of how program success is envisioned and the budget available to determine how straightforward it will be to achieve the desired outcomes. This could well depend on the size of the organization, the industry sector, and how many open roles it is perceived will require filling in a given quarter or year. In order to maintain a successful ERP, there will be the need to consistently execute the following:

- Attractive messaging which encourages employee participation while educating on how to fully utilize the program
- Technology implementation to help streamline processes and capture important data to measure program success and identify areas for improvement

- Employee guidance on what the company is looking for in specific positions which are being advertised as well as relevant information on broader talent profiles the organization can utilize to pipeline for future hiring needs

It is considered good practice to communicate to the organization the referral award amount which will be paid out when a successful employee referral hire is made. The amount needs to be sufficient to incentivize action but not too much that it becomes a distraction or the amount no longer provides the organization with an acceptable cost per hire metric. The right amount of referral reward will be dependent on certain criteria such as the following:

- Size of company
- Industry sector
- Position type
- The number of positions
- Time frames or deadlines to fill open positions

One thing to consider is the cadence in which the company pays out the referral bonus. Best practice is to pay out the referral bonuses in two installments where half is paid immediately after the referred employee start date and the second half is then paid after a few months. This approach ensures the referring employee remains with the company for both installments as well as giving the employer an opportunity to manage budgets and resources.

There are many alternate forms of referral rewards outside of monetary compensation. Many companies offer rewards in the form of additional vacation time, tickets to a special event or industry conference, charitable donations made on behalf of the employee or team, and even company-wide recognition which is often seen as very valuable to employees who want to raise their profile as being a worthwhile and valuable member of the workforce. It is important to provide a variety of rewards to help the ERP stay fresh and exciting to encourage continued participation by the employee base.

There is also another way which will help expand an ERP program and continue to receive active referrals. Some companies are expanding their reach to former employees or vendors as well as trusted contacts within other similar, like-minded companies (PR Newswire 2012). This type of ERP may or may not offer rewards from referrals from outside sources; however, it can still be an extremely effective and cost-friendly approach to recruiting new hires.

Recruiting programs utilize many different forms of marketing when spreading the word that they are hiring. Historically, companies marketed their jobs using many formats, from print, radio to even television, but marketing is expensive, and with limited budgets many recruiting department leaders are using the Internet and social media as the major vehicle to both fuel the marketing of their talent brand and carry their employee referral programs.

There are several different ways in which the Internet can be used to its fullest advantage with any ERP. Redesigning business websites to incorporate the ERP has been shown to be advantageous when implementing new ERPs (Taulbee 2010).

Databases and registries can be created to help track employee progress and rewards earned. Social media can also be used as a way for employees to advertise their business with no cost to the employee or the business; however, there would need to be a way to accurately track employee referrals through social media.

Social media recruiting allows for a much more cost-effective means to promote open jobs but also provides an incredible efficiency when engaging the social media networks of employees. By engaging these platforms with curated content and job opportunities, the messaging will be much easier and faster to disseminate to the range of social media tools. It is important to note that effectively communicating what the “must haves” are for each position so that your extended recruiting team (i.e., employees) can focus on contacts within their networks who are in line with what the company looks for from both a skill set perspective and cultural fit.

There are a variety of social media recruitment tools and technologies available on the market today to choose from. The place to start is to look at the budget constraints and then test a program within these parameters. The use of affiliate marketing technology is a further trend which is seen as being responsible for the evolution of adoption of an ERP by employee workforces. The more streamlined, accessible, and easy to understand participation is made, the better the results. This requires recruiting leads to learn about which technologies will help your ERPs to become fully integrated into the everyday work processes used by the company employees. The primary goal with these technologies is to seamlessly engage the employee population to help build strong online talent pools to be used for both present and future open positions.

Some companies are also turning to “low-tech” solutions to implement ERPs, and these have been equally successful (Taulbee 2010). Businesses are able to simply distribute company business cards with an employee’s signature on the back of the card, and when a new employee gives that business card to the HR department during the interview process, the employee receives a reward or a certain amount of points for the referral (Taulbee 2010). Companies can also limit the reward to employees who refer successful hires which will help reinforce the integrity of the ERP program.

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## **Dos**

Before implementing an employee referral program within a company, it will be necessary to provide HR and finance leadership with extensive research on best practices and a prospectus on possible ongoing expenses and maintenance to the program. It is important to assess multiple ERP programs within different types of industries to gauge which is the right approach for the organization. It is also important to fully consider the feasibility and implementation of nonmonetary rewards because not all ERP programs require money to be paid for successful referral hires. Recognition from internal leadership, event access to thought leaders and industry influencers such as at conferences or workshops, and additional time off mechanisms can be used as rewards for participating. This approach provides additional employee betterment, networking, and learning opportunities which can

produce a higher-quality employment experience versus simply making a monetary payment. Having an all-year round ERP and unlimited referrals objective is important because recruitment is an all-year round activity which requires employees to be incentivized to assist in the continual identification of strong passive candidates who are in the market and could be referred for current and future opportunities.

Each referral should be tagged in a standardized procedure, and if the candidate is successfully hired at any time in the future, a referral fee should be paid out to the successful employee who introduced the candidate.

It is best practice to break ERP payments into installments to confirm referrals have successfully been employed for an acceptable period of time. This also helps retain employees who are responsible for the referral.

Continual management and promotion of the ERP program is crucial because employees have their own job to focus on, but it is important to continually promote communications of the program highlights, details, and advantages of participation in order to stay fresh in the minds of all. The best times to introduce the program are during new hire orientation, company meetings, and at scheduled times during the year. Showcase how easy it is to participate and what the rewards look like on a regular basis. Fluctuating rewards and a consistent schedule will help keep employee attention and interest in the ERP. It is also important to run promotional periods where successful referrals are paid a premium award versus the usual amounts. This will help keep interest in program participation during key quarters of hiring growth.

Successful employee referral programs require consistent, standardized, and continual assessment, measurement, monitoring, evaluation, and maintenance in order to deliver on their initial benchmarked objectives. The best ERP examples capture, measure, and market the data and share actionable insights to business counterparts. This should be in an effort to further justify the investment as well as improve upon results. These insights should look to answer a number of important questions such as how many hires come from employee referrals compared to other recruiting programs and strategies, how long do employees who were referred stay at the company versus other non-referred employees, and are referral employees more successful in terms of performance appraisals than non-ERP hires. These are all important talent metrics which other nonemployee referral recruitment approaches are measured against. One way to measure ERP quality is to survey current employees and hiring managers to help capture important data and insights and to gauge how effective the program is as well as to identify areas for improvement. Most improvement areas which arise are usually around whether the amount or type of referral incentives is incentive enough to participate and if the process is easy to follow and provide results for all who are involved.

It is important to maintain a thorough vetting process even with an ERP in place. There may be concerns voiced about the possibility of hiring poor leads from an ERP; however, these can be effectively mitigated with a comprehensive vetting process. ERPs do not replace the employee vetting process, and new hires who are discovered through an ERP should still complete the same requirements and orientation processes as regular new hires (Mohanty 2011).

Any incentive which is given for ERP hires should be disbursed out once the new employee completes the vetting and orientation processes. As already indicated,

companies can also schedule ERP payments once new employees reach certain milestones within the company. This ensures that employees who use the ERP program do not take advantage of it by referring people who would otherwise not meet the requirements to be hired by the organization.

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## **Don'ts**

The important issues to concentrate on preventing within an ERP program concern budget, quality of recruitment, and promotion of program.

Budget constraints are part of every company finances, and the introduction of an ERP will have a monetary impact – the setting up, the management of, and the incentive itself whether it is actual money or the cost of a nonfinancial reward such as access to a chosen conference or training course. Therefore, it is important that the budget is clearly defined at the outset with each relevant department being aware of their maximum spend, HR and marketing in particular. Overspend will eventually bring the downfall of the program, so the excitement of this new method of recruitment should never overshadow the actual cost of carrying it out.

It is also equally important that monetary payments are staged, so the current and new employees stay with the company for a set amount of time and do not leave as soon as they are paid their extra referral fee. Consider a period of time such as 3 or 6 months, perhaps dependent on the usual staff turnover rates.

Carry on recruiting in other traditional ways as well as the ERP. Focusing purely on ERP employee referrals could lead to poor recruitment candidate choice and the lack of quality applications.

The staff need to know about the scheme, so do not forget to tell them about it and how it works. They need to comprehend the overall idea and the exact role they play; otherwise there will be no referrals as the workforce will not know what they should be doing.

At the same time, even if you have launched the ERP with an impressive flourish and accompanied it with information in various formats, do not let the initial enthusiasm and communication stop at that point. It is a program which requires regular marketing, and it would be wise to assign a member of staff to take on the role of refreshing the dissemination of information as part of an ongoing strategy. If the staff become too involved in their daily workload, they will quickly forget about the ERP unless there are constant and visible friendly reminders about how it works and the benefits on offer.

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## **Final Comments and Outlook**

ERPs can be extremely beneficial to any company; however, they can in particular help companies which are understaffed to find qualified new employees to help boost their ranks. They can also help create a more positive work environment which can



lead to better employee retention and loyalty. ERPs are not designed for companies which are already contending with financial issues because most ERP programs will involve an investment of money, even for those that use nonmonetary rewards as the actual incentive.

If ERPs are utilized and managed effectively, they can affect most companies in an extremely positive way. They help to build morale among current employees, while also increasing both successful recruitment and retention rates. Employees who are allowed to have a voice in the hiring process may feel that they will be more cohesive with people that they recommend for positions than people hired through a random hiring process. This will help increase workplace satisfaction among employees and also provide a word-of-mouth advertising for businesses, further assisting in the recruiting process for businesses which utilize ERPs successfully.

ERPs may be the difference maker in companies which are trying to be successful in struggling economies. They are low cost and do not always have to involve monetary rewards to be successful. ERPs focus on using the networking skills of a current workforce rather than, or in addition to, paid advertising. Personnel recruited through ERPs already have one solid reference which is referring them to the hiring company, and a thorough vetting process can ensure that companies are still hiring the most qualified individuals for each advertised position.

An ERP may not keep a company from going out of business or declaring bankruptcy; however, it will help conserve much needed costs that can be utilized in departments where the funding can be more effective. Therefore, it is reasonable to suggest that successful ERPs will benefit the entire company and not just the recruiting department and the department where ERP hires are assigned. Departments that may have had funding cutback in the past in favor of more funding for the recruiting department may be able to have funding restored with successful implementation of an ERP program.

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