

# EMPLOYEE REFERRAL PROGRAMS:

**How To Build a Program That  
Helps You Hire the Best**



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Your employees are your best resources for finding new hires. Instituting a referral program will save your company money on advertising and search firm fees. It also saves your human resources department and recruiters a lot of time. Here's how to develop an employee referral program that will encourage employees to help sell your company--and its open positions--to some great candidates.

### **Why Establish a Referral Program**

A referral program has huge potential benefits for a company -- people can start building ties with qualified candidates whether they currently have an open position or not.

Employees hired through referrals typically display the following positive qualities over their non-referral counterparts:

- Display higher levels of performance
- Adapt more quickly to new job and company culture
- Quickly get up to speed in terms of productivity
- Stay with companies for longer periods of time

"I have found that referred employees are 20-40% more productive when starting their new jobs than non-referred hires," says Dave Lefkow, senior director of strategic partnerships for Jobster, a Seattle-based company that is focused on helping leading employers target, qualify, and build relationships with employee prospects. Jobster gets 90-95% of their new hires through referrals.

The main difference between working with a new hire that was referred by an employee and one who is hired off of the street is that the referred hire already has a point person within the company.

Their social network at the company helps the referred employee by:

- Being a resource the referred employee can turn to with questions
- Helping the referred employee get oriented so they can spend less time on administrative tasks and more time getting up to speed
- Giving a realistic representation of what the job entails

Because of this referral connection, the new employee typically spends less time learning what they should be doing on the job and more time actually doing the work, according to Lefkow.

Besides productivity, candidates that already are well acquainted with your business through an existing employee tend to stay with the company longer. "Referred employees stay at the job four times longer and are fired about four times less than employees who were not referred," says John Sullivan, a thought leader in human resources and professor of management at San Francisco State University.

## Building an Employee Referral Program

There's no one right way to build a referral program -- every company is different. An important fact to keep in mind is that each referral program you run has a shelf life. "After six months the referral program will be dead," says Sullivan. To keep your employees interested you need to change up your programs. For example, if you decide that the reward for your winter referral program will be two airline tickets to Hawaii and you creatively weave in a luau theme, make sure the summer program you run is completely different.

Here are a few things you should consider doing to ensure that your referral program will be a success.

### Get employee buy-in

The first step to building a program is to get your employees, from management on down to line workers, on board, as they will become your source for new hires. This is called getting a buy-in. Your employees need to believe in the referral program to become involved in it.

A successful referral program starts at the top with continual reinforcement from the CEO. "The most effective referral programs I've seen have had an executive level buy-in" says Lefkow. If you can't get your management team on board with the referral program your employees won't find value in it.

Promoting your referral program is one way to reinforce its importance and keep enthusiasm for the program alive. Continuously promote the referral program every chance you get be it one-on-one or in weekly meetings. Showing that you are excited and active in the success of the program will help win over the rest of your company.

### Choose an approach (or approaches)

Referral programs can be broken down into three categories:

- Reactive: a money-based program that reaches out to the whole company
- Proactive: reaching out to only the top performers in the company
- Multi-level or Tiered: not based solely on an immediate hire but rewards employees for referring excellent future candidates

A **reactive program** can be as simple as sending out company wide e-mails clearly describing open positions at your company. Be sure to include the type of skills and personality you are looking for in new hires.

A **proactive program** is one that is targeted only to your top performers. These employees have worked their way up the ladder to be the best at what they do. They are a great resource that should be tapped.

When explaining open positions using a proactive program, ask top performers descriptive questions such as "Who was the best developer you ever worked with?" or "What made that person so good?" suggests Johanna Rothman, president of the Rothman Consulting Group, a

software management consulting service specializing in IT project and people management, based in Arlington, Mass.

"A **multi-level or tiered referral program** rewards the person who started the chain of positive contacts in motion," says Lefkow. If one of your salespeople opened up his or her Rolodex and gave you the name of a great contact that isn't interested in switching jobs, but knows someone who is, rewarding that sales person is important.

"One of the best practices that isn't used nearly enough is rewarding employees not only for an immediate hire, but also for introducing great candidates to the company who may get hired in the future," says Lefkow.

### **Determine the reward**

The rewards will be different depending on whom you are targeting for the referrals.

**In a reactive program**, where the reward is usually monetary, it can get tricky. If your reward is too big of a cash payout, you run the risk of getting spammed with unqualified candidates by your employees. If the reward is too low, or something your employees aren't interested in, no one will pay attention. If you are committed to giving out a cash reward ask your employees what amount it would take to motivate them and base your reward on their answers.

"Money shouldn't be the only approach," says Sullivan. Lefkow agrees, "Money is a motivator but shouldn't be the only motivator," he says.

Rothman offers these suggestions for rewards:

- Tickets to an event or conference
- More vacation days
- Certificate or training courses
- A trip

Some people reward each employee individually for a referral that was hired while some put the names of all the employees that passed on excellent referrals into a hat for a drawing. These rewards tend to be bigger, since you will only need to give out one. Prizes can run the gamut from free airline tickets or a cruise vacation to an extra paid week of vacation time.

You can reward your employees however you see fit, but you need to be sure the reward is something your employees will respond to or the program simply won't work. After all, what might sound enticing to one person may sound foolish to another.

**In a proactive program**, your top performers are what drive your company. Chances are these employees will have had a few years of experience in their respective fields before they joined your company. They want to have the strongest team in the business, and have a vested interest in referring the best candidates they know, whether they receive a monetary reward or not.

Facilitate the generation of referrals by inviting your top performers to a lunch meeting. Have them bring their contact lists. Explain the open positions and ask them to think of the best

people they have ever worked with. More often than not, they'll be happy to share the names of some of their former coworkers.

Rewarding your employees for a **multi-level or tiered referral** is important but often overlooked, says Lefkow. In this program you are rewarding the employee who started the chain of positive contacts in motion. "If one of your employees opened up his or her Rolodex and gave you the name of a great contact that isn't interested in switching jobs, but know someone who is, rewarding that employee is important," Lefkow says. Rewards can be anything from a gift certificate to a local restaurant to a cash bonus -- it's up to you.

### **Be creative when promoting the program**

When building a referral program think like a marketer. Find a fun and clever theme that grabs your employees' attention. The most important thing is the audience -- know what they will respond to. Some people will respond to a cash reward while others will respond to travel or electronic gadgets. Find out what will drive your employees.

One company that Lefkow worked with used a clever theme to promote their referral program. It was called "Go Fish" and all around the office huge, colorful paper mache fish hung from the ceiling. Whenever an employee referred a useful candidate to the company they got a miniature version of the big fish and their name went into a fish bowl for a raffle at the end of the program.

### **Maintain the program with open communication**

If you aren't getting quality referrals -- or any referrals at all -- you need to ask your employees why. Questions to ask include:

- Why are you unmotivated to refer people to the company?
- Are you dissatisfied with your job? With your management team? With the company?
- Do you need better resources to meet more businesspeople?

"Open communication is key," says Lefkow. If your referral program isn't giving you the results you had hoped, talking with your employees and managers is the best way to get to the root of the problem.

Also, it's important to keep your employees in the loop when it comes to where their referrals stand so that their contributions are taken seriously. One to do this, says Lefkow, is to guarantee an interview with anyone who was referred by an employee.

You also must be honest with the referred candidates. If a referral isn't quite right for the position or company, they may know someone else who might be. A referral program is about building relationships -- the more relationships you have the bigger the pool of candidates you have to dip into.

## **Encourage employees to network**

It's in the company's best interest to promote networking to their employees. "Having your employees talk to other smart people is a great idea," says Sullivan. Encourage employees to attend conferences, college alumni gatherings, and/or community business events to strengthen their ties to peers and possible candidates.

"I've found that some companies are afraid of giving their employees the resources to meet other like-minded business people for fear they'll leave their jobs," Lefkow says. "The value is greater than the potential risk."

While salespeople are typically outgoing and talkative, other employees in your company may be a little less confident when in a room full of strangers. Tell your employees what events to go to and coach them on how to meet people and assess their talents and personality type. Be sure to arm them with information to have a conversation about your company. "Give your employees information that includes the benefits of working for your company versus the competition," Sullivan suggests.

Also, it's a good idea to track the conferences your employees attend to find out which ones have been the best sources of quality employees. There's no need to waste your time fishing in a pool of sub-par candidates.

## **Assess the results**

As with any business practice, a referral program regularly must be reviewed for effectiveness. The most common way to assess the success of a referral program is to look at the percentage of new hires that comes from referrals. "If at least 20% of your workforce was hired from a referral then you are in good shape," Lefkow says. "If it's lower than 20%, you have a problem."

You also should measure your referral promotions against each other to find out which ones garnered the best results. If something didn't work, don't do it again.

Sullivan suggests changing up your referral programs to keep it interesting and rewarding for your employees. Using different themes and rewards will breathe life into your referral efforts.

## **Things to Keep in Mind**

There do not seem to be many pitfalls to having a referral program, but there are a few things you must keep in mind to keep one running effectively.

- Life span of the program -- No matter how wonderful your referral program is it still has a shelf life. To keep your employees motivated you need to switch up the theme or rewards of the bonus program to get their attention.
- Problems with the attribution of referral -- It's a small world and having two employees refer the same great candidate does happen. Make sure to lay down some ground rules and stipulations on referrals before promoting your program.

## The Bottom Line

Despite any challenges involved with maintaining an employee referral program, supporting one shows your employees that you value their skills and opinions, and that you are committed to building a first-class organization. With the right motivators in place, your employees can introduce you to some of the most talented people they know--and help you convince those talented individuals to come join your company.

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