

# EFFECTIVENESS OF EMPLOYEE REFERRAL PROGRAM IN TALENT SOURCING – AN INFORMATION TECHNOLOGY INDUSTRY PERSPECTIVE

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## Abstract

Great employees are the foundation of a successful business, but finding them can be challenging. Employees who are hired through referrals tend to stay with the company longer than other candidates. And unlike other recruiting methods, which tend to draw only active job seekers, ERPs offer access to passive job seekers — qualified people who have not signalled a willingness to move but who might under the right circumstances when encouraged by a friend or a trusted colleague. An employee referral program (ERP), whereby employees recommend qualified friends, relatives or colleagues, can be an excellent source of candidates. For the employee whose recommendation leads to a hire, there can be various rewards. This study is aimed to find out the effectiveness of employees referral program in acquiring talent sources, by exploring perceived benefits to the organizations and also to the existing employees. Data has been collected from two hundred IT professionals in Chennai. Result shows that ERP proves to be effective and scope of ERP is very much in line for talent acquisition. Through ERP we could see lot of companies (IT), recruit technical people thereby they are able to compete with other companies in signing new projects and dealings with which they could increase their turnover and business. By ERP not only the person gets benefited by his employment, his referral gets a referral bonus and in turn gets the best out of him by his work.

**Keywords:** Employee Referral Program, Talent Sources, IT Companies, Referral through sources

## INTRODUCTION

Employee referral is an internal recruitment method employed by organizations to identify potential candidates from their existing employees. An employee referral scheme encourages a company's existing employees to select and recruit the suitable candidates from their social networks. As a reward, the employer typically pays the referring employee a referral bonus. Recruiting candidates using employee referral is widely acknowledged as being the most cost effective and efficient recruitment method to recruit candidates and as such, employers of all sizes, across all industries are trying to increase the volume of recruits through this channel. This policy aims to bring candidates with requisite qualification and skills to the organization through employees which help in successful placement of the candidate, where the employee will be awarded on the basis of placement

Employee referral is defined as “recruitment method in which the current employees are encouraged and rewarded for introducing suitable recruits from among the people they know”.

An effective employee referral program should be an integral part of any employee recruiting process. There are many recruiting sources that can be used perform for your employee recruiting and it is not necessary to limit activities to any single source. Referrals from existing employees have been shown to be some of the best employees. A study has shown that employees referred by existing employees better

and last longer on average. There are many benefits from a well designed and implemented employee referral program in addition to getting better employees.

The first area of improvement is significantly reduced costs per hire for bring on new employees. Employee recruiting is expensive. Running ads, posting on-line and using head hunters all cost money. In many cases multiple sources will be used to build a candidate pool and the costs add up. But giving existing employees a referral bonus can be much more cost effective. There is only one payment. Calculate an amount that is both attractive to your employees and cost effective for the business. A good recommendation is 20-25% of the normal cost per hire number. The second benefit of a good program is the program can be a significant morale booster for existing employees. They are much happier when the money spent on recruiting "stays in the family" instead of being spent on outside sources. Existing employees appreciate the opportunity to make more money while helping the company at the same time.

Employee referrals have been accepted as the "number one source of hire" and often the highest calibre, too. And new studies show this trend will likely continue, as organizations rely more heavily on their referral programs. The majority of organizations report not only having an employee referral program but also focusing on referrals as a key component of their overall recruitment strategy. In addition to incentives, however, it's also critical to design a program that works best for your team and communicate it in a way that users can understand. If you don't, your program is likely to remain stagnant or fail altogether.

There are some aspects of employee-referral programs that can cause problems for a company. Some are subtle, while others, like lawsuits, can literally slap a business in the face. Overreliance on an employee-referral program can lead to underrepresentation of certain protected groups in a company's job-applicant pool. This can add credence to charges of employment discrimination from rejected candidates. Also, some competing businesses may retaliate against your company for stealing their happily employed workers via employee-referral programs.

Excessive reliance upon an employee-referral program can lead to an inbred organization that lacks breadth of ideas, and it can foster a "stick-together" attitude that masks underlying problems in organizational behavior. Relying too heavily on an employee-referral program can also create cliques within an organization, leading to resentment and friction with other employees. Some managers may have biases against employee-referral programs, feeling that referrals are favours done for shiftless in-laws rather than for the company. Overly restrictive bonus qualifications or excessive qualifications for employee referrals can lead to disillusionment with an employee-referral program. Under such circumstances, an employee-referral program may actually become a source of employee discontent.

## REVIEW OF LITERATURE

It is estimated that more than eight of 10 people (85 percent) find jobs by referral or direct contact with a prospective employer, according to figures from the Bureau of Labor Statistics, and companies with recruitment-by-referral programs estimate that as much as 25 percent of their hiring is through referrals (Williams, 2009). Recruitment-by-referral programs are relatively easy to administer, especially when referrals are tracked by computer; directly draw on one of employers' strongest recruitment resources - their own employees, who can provide the kind of detailed information not usually obtained from employment references; and help reduce costs for advertising, job fairs, and other activities associated with more traditional recruitment efforts. They generally require less time and effort than some other forms of recruitment, which can draw in large numbers of unqualified applicants who must be weeded out. In addition, they can be used successfully to attract seasonal hires, such as qualified students for summer positions (Shinnar et al, 2004).

Job performance suggests that referrals by current employees, in-house recruitment and rehiring of former employees are the most effective sources, followed by walk-ins. The least effective sources were newspaper ads and employment agencies. Although on-line recruitment, as a relatively new phenomenon, has not been included in the major empirical studies of recruitment, one might assume that former 'walk-ins' might, in the age of impersonal communication, transform into 'visits' of organisational web pages and newspapers advertisements for commercial job boards. Additionally, although referrals by current employees are suggested to be a highly effective source, this means is not likely to assist in the required diversity of the workforce, as there is a common tendency to refer and recruit individuals similar to our own image and thus in Kantar's word (1977) to produce 'social clones'. Effective hiring practices should strive to include both identifying capable candidates and creating a diverse workforce. Research in the effectiveness of different hiring sources has received close attention since the 1960s. A quantitative review

(Zottoli and Wanous, 2000) including three meta-analyses of the effectiveness of different recruitment sources (primarily assessed by examining turnover rate)

Aarshi Sharma and Santhi Swarup (2016) concluded that there are various determinants which influence the tendency of employees referring or not referring people in their circle to the respectable organizations or the employers they work with. Their study examined the employee motives and its determinants in encouraging or discouraging others for joining the organizations they work with. Also the extent to which these referrals helps the organizations, employers, job seekers and the existing employee were studied from various secondary sources. It was found that internal, external and prosocial determinants motivated the employees to refer or do not refer others seeking jobs. The level of Job satisfaction, job fit and rewards based on referrals were few of the motives due to which the percentage of employee referrals tends to boost up.

Sameen's (2016) findings indicate that promotion, contingent rewards, operating conditions and nature of work had a significant effect with formal recruitment whereas pay, supervision, fringe benefits, coworker's attitude and communication had a significant effect with Informal recruitment. Formal and informal sources found to have no significance with employees intension to leave concluding that job satisfaction partially mediates the relationship of intention to leave.

Pieper et al. (2017) suggested that larger referral bonuses can help offset perceived risk in referring and low affective commitment levels. We contribute to the literature by developing theory, expanding the scope of the current referral literature, and offering a quantitative examination of previously theorized variables in the referring process. We conclude with suggestions to practicing managers on ways to improve the motivating potential of their employee referral programs.

### **Objective of the Study**

1. To study the extent of perceived benefit to the organization due to referral recruitment.
2. To study the extent of perceived benefits to existing employee due to referral recruitment.
3. To understand the personal risks to the current employees for their participation in employee referrals.
4. To analyze the amount of risks to the organization due to referrals in general, as perceived by existing employees.
5. To evaluate the perceived role of social media on the outcome of referral programs.

### **METHODOLOGY**

The term methodology refers to the process, principles and procedures to seek answer. This section of the report is an attempt to explain as clearly as possible the steps and procedure of the work. Employees working in IT based companies in Chennai are the population for this study. 200 people have been selected at convenient sampling method in Chennai City. The data was collected from two sources namely primary and secondary sources. Primary source: - under this method the data was collected through questionnaire. Secondary source: - under this method the data can be obtained through books, magazines, as well as internet. In order to identify the difficulty in filling the questionnaire, a pilot study was conducted with 50 samples nearby to the researcher's residence area. While filling the questionnaire, the respondents felt difficult on some terms. The researcher noted down the queries raised by the respondents and carried out the correction after completing the pilot study.

The data were collected from the respondents through a structured questionnaire with different types of questions. Apart from attitude measuring statements, few statements relating to the socio-economic background of the respondents have been asked. After going though the pilot study to carryout corrections, the main questionnaire was prepared and distributed to the people who are well aware of ERP. The distribution has been done randomly and the researcher explained the need of the study to the respondents and sought their cooperation. 200 questionnaires were distributed and collected from the respondents. After collecting the questionnaire, the data were analysed. The analysis and interpretation of results are given in the following chapter.

### **FINDINGS**

From the results we could conclude, most people strongly agree to the contents in the Questionnaire. It's safe to say that every company/business has its own Employee Referral Program, whether formal or informal, that they promote to varying degrees at various times. Larger companies with hundreds of open positions, in some cases, have a full-time employee dedicated to running and optimizing

their ERP. Smaller companies that hire a few people a year often rely on their employees to refer candidates for those position. A good referral program will have many benefits, both in cost and the time savings. From the results we see about 40 % people are saying ERP is cost effective and it is an HR initiative. From the graph 60 % people say the ERP process should be applicable for all levels of employees. The graph shows as high of 70% as ERP motivates the employee.. About 35% people say ERP process should be confidential. All the graphs show a high percentage of STRONGLY agree and it indicates that the responders say that they strongly believe that the contents are in agreement and scope of employee referral plays an important role in one's career.

By using the employee referral, we had discussion with HR team as well, that their work is very much minimized and employee who joined feels safe because of their reference. Also HR also feels that recruitment cost is very much low. We can vouch for better candidates by using employee referral and the same is evident from the graphs and results. Monetary bonus for the employee who joins is an attractive and encourages him to join the company by using performance appraisal. It is one of the best alternatives for the recruitment channel in the company as they don't need to give any specialized work for job vacancy. Through ERP, we get suitable persons for suitable higher positions. Employees' retention rate is very much high while recruiting through ERP rather than interview.

## SUGGESTIONS

Even though, there are lot of advantages with respect to ERP, on hiring, we could say that there is lot of hike ups and problems, related to them. We don't need always to depend on the ERP for recruitment. There are lot of ways of recruitment such as through various agencies, consultants and walk in interviews, we can prefer the same. Even though ERP has advantage on the higher side, ERP shall be considered as the better of talent sourcing but not the best way. So let's take a conclusion that ERP is one of the ways of recruitment and we don't need to argue further as the graphs and results clearly show the same. There is a risk of alienated from other staffs and we could be separated as well.

**Educate employees on the power of referrals:** It is know that referrals are the #1 source for new hire quality, that they produce more profit, and stick around for the longest amount of time. But do your co-workers know that? Make sure you're educating your organization on the positive impact referrals will have on your company's culture and bottom line.

**Set and communicate recruiting goals:** The Talent team of Greenhouse customer Thumbtack shares recruiting goals with the entire organization and sends updates weekly. With more transparency into their objectives, employees are more likely to help out.

**Carve out time for them to recruit:** Recruiting - both sourcing and interviewing - takes time. If a hiring manager wants to fill positions on his or her team, time spent by the team must be accounted for. Thumbtack ties recruiting into quarterly goals so that hiring managers delegate time to this important task.

**Prioritize tough-to-fill positions:** Sending out a link to your careers page will not result in an influx of referrals. Identify your most challenging or highest priority positions, then send out an email with details around those roles.

**Dig through employee social networks:** Instead of asking employees to dig through their social networks, do it for them! Sleuth through the employee's LinkedIn connections, then ask for an intro to somebody that looks compelling. Even better, draft up an intro email that your colleague can send.

**Define the attributes or skills that are seeking:** A colleague may not know a Sales Manager, but she may know someone with the exact attributes you're looking for. Be sure that you provide an opportunity for employees to submit contacts with relevant skills -- not just the right title.

**Provide employees with resources:** Give your employees something to point to - a video, blog post, or awesome careers page - when they reach out to their contacts. Social media is an invaluable tool if used properly, but is best leveraged if the content gets prospects excited about the organization.

**Showcase the talent:** Start a blog series around the existing members of your organization to help define company culture and showcase it to employee networks. An employee might be more likely to share a spotlight on his work than a job posting!

**Start a competition:** Instead of a recurring cash bonus, get everyone excited with one, large, pool. Make it a competition and update the team on who's ahead.

**Make it very easy to submit a referral:** Being able to submit and track a referral should be a no-brainer for your organization. Don't make them print the paperwork; use a user-friendly ATS or the interactive form we've provided below

## CONCLUSION

From the results we could conclude, most people strongly agree to the contents in the Questionnaire means, ERP proves to be effective and scope of ERP is very much in line for talent acquisition. Through ERP we could see lot of companies (IT), recruit technical people thereby they are able to compete with other companies in signing new projects and dealings with which they could increase their turnover and business. By ERP not only the person gets benefited by his employment, his referral gets a referral bonus and in turn gets the best out of him by his work.

Technology is advancing at a very fast pace giving rise to growing commitment of OEMs round the globe for manufacturing excellence in pursuit of staying competitive. To achieve these business aspirations and goals, business processes are getting more interrelated and more complex, invariably causing new ERP implementations tougher and more challenging ever. This poses manifold threats and challenges to OEM management intended to pursue ERP implementation in terms of selection of appropriate candidates.

ERP tools and vendors to match available infrastructure and skill and expertise level of the organisation and also selection of appropriate implementation methodologies and models, to culminate in higher operational efficiencies and effectiveness of the organisation to help stay competitive. Our work is a unique compendium in the sense, a thorough review and analysis of the literature has built up a comprehensive knowledge and expertise base and a deeper understanding of corporate ERP strategies to pave a sure way to effective and efficient new ERP implementation incorporates and OEMs. The work is limited to study and review of literature and their analyses which invariably mandate development of an advanced ERP selection framework as a part of future research direction.

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