

EMPLOYEE REFERRALS AS A RECRUITMENT SOURCE

ROBERT STEWART, GE GE ELLENBURG, LISA HICKS
MARK KREMEN, and MICHELLE DANIEL
RADFORD UNIVERSITY

The present study sought to examine employee referral programs (ERPs). Specifically the relationship between the amount of referral bonus awarded and the number of applicants referred and subsequently hired. Five hundred and six companies were surveyed on their use of employee referral programs. Results revealed a vast difference in the use of ERP's between private organizations and public organizations. Results of the present study are in accord with previous research conducted on ERP's.

What is the best way to recruit highly qualified employees? Today's journals and magazines are filled with articles that attempt to answer this very question. Recruitment sources tend to be eclectic, ranging from the use of headhunters to acceptance of walk-in applicants. According to a 1985 survey by Costello, Erdlen, and Company, Inc., employee referral programs (ERP's), advertising, and employment agencies were found to be in the top three methods of recruitment in use today (Mangus, 1987). A survey conducted by Hardware Age Magazine, confirmed these findings (Carter, 1985). Even though ERP's were found to be the most popular recruitment method in both the Costello-Erdlen and Hardware Age surveys, research on the actual effectiveness of various recruitment methods is limited.

One reason that ERP's are becoming more popular is due to the high cost of recruitment. According to Persinos (1984), the "cost...is going higher...So, many companies are finding it difficult--and expensive--to recruit and retain highly skilled employees" (p. 210). The Saratoga Institute found that the average cost-per-hire in 1986 was \$15,017. In conjunction with this high figure, comes the subject of accountability. Personnel managers are finding that they are being required to "control, reduce, and justify costs" (Mannus, 1987, p. 55).

Gleckstein & Ramer (1988) demonstrated the effectiveness of ERP's in lowering the cost-per-hire by an estimated 50 percent. Verbatim Corporation revealed even more impressive results when they managed to reduce employee hiring costs by more than 95 percent in only six months after the implementation of their ERP (Farish, 1983).

Aside from the obvious monetary savings, employee referrals offer other benefits as well. It has been theorized that a "good" employee will refer a "good" candidate (Mondy, Noe, & Edwards, 1987). This seems to be a legitimate presumption if one considers the social theory of attraction: people tend to like those who have similar attributes and values (Bernstein, Roy, Scrull, & Wickens, 1988). In accordance with this, employees will probably recommend someone who is very much like themselves. Therefore, if an employee has high performance ratings, it is likely that (s)he will recommend someone with similar qualifications. Aamodt and Rupert (1990) lend support for this idea by revealing that referrals made by successful employees had a significantly longer tenure than referrals made by an unsuccessful employees.

Most recruitment strategies, other than employment agencies, do not allow for efficient screening. However, ERP's tend to weed out applicants who are obviously not qualified (Carter, 1985). The referred candidate

comes into the selection process with realistic expectations and job knowledge provided by the referring employee. Both employer and applicant benefit from this type of preview because the referred applicant is likely to have a clear idea of the advantages, as well as the disadvantages of the job being applied for, instead of the glitz and glamour presented by the company's public relations office (Schultz & Schultz, 1986). Because of this informal, realistic job preview, these applicants tend to stay on the job longer.

To investigate the effectiveness of ERP's, Aamodt and Carr (1988) conducted a meta-analysis on eleven past studies with a total of 10,672 employees. Results indicated that referred employees tend to stay with an organization significantly longer than do those hired through any other recruitment method. The increase in employee tenure may lead to a decrease in the turnover rate and may significantly reduce the hiring and training costs associated with new employees.

Whereas it is known that many companies use employee referrals, the particulars of these programs and the extent to which they are used are largely unknown. Employers are finding that the best way to promote their ERP's is to offer incentives to their employees. These bonuses can include: merchandise, savings bonds, gift certificates, and cash. In a survey conducted by Bernard Hodes Advertising (1985), it was found that 86 percent of the companies with a referral bonus, offered a cash award. The mean cash award was \$628.00, with the highest amount given by tech industries and the lowest amount given by food service industries.

To date, the literature suggests that employee referrals represent an excellent recruitment source. However, the question remains, to what extent are companies utilizing this alternative? Research has yielded inconsistent results. In a survey conducted by Blocklyn (1988) it was found that only four percent of the 115 responding companies had an ERP. At the other extreme, Bernard Hodes Advertising (1985) reported 40 percent of the 178 responding companies employed a referral system.

The purpose of the present study is to expand the body of research on ERP's by

investigating the scope and effect referral programs have on the hiring practices of private companies. Specifically, to determine if a relationship exists between the amount of the referral bonus and the number of applicants referred and subsequently hired. In addition, it is hoped that these results will shed some light on the use, particulars, and popularity of ERP's.

Method

Procedure

A survey was prepared that contained fourteen structured questions. Each inquiry contained a cover letter explaining the study and a self-addressed, stamped envelope to help ensure the highest return rate possible.

The surveys were sent to 400 private businesses, corporations, and industries as well as to 106 public agencies throughout the united states. The companies receiving the surveys were randomly chosen from three business directories. The only criterion necessary for participation by the private sector was that each company employ a minimum of 100 employees. There was no criterion required for the public agencies surveyed.

After the surveys were mailed, a 35 day waiting period was allowed to permit sufficient time for survey completion. From the private sector 126 completed surveys were returned (32% response rate). Of the 106 surveys sent to the public agencies, 64 were returned (61% response rate). The returned surveys were further categorized by type of organization.

Results

Table 1 provides an overview of the number and type of business having referral programs. Results indicate that 40.5% of the responding private companies, but only five percent of the public agencies, have referral programs. Whereas the figures for private organizations are similar to the results of Bernard Hodes Advertising, they are much higher than the four percent found by Brocklyn. Results revealed vast difference in ERP utilization between public and private organizations. The literature suggests many advan-

tages to using ERP's, why public agencies have not utilized such programs is unclear. Perhaps the public sector should follow the lead of the private industries, by experimenting with some of the less traditional methods of recruitment, such as employee referral programs.

It is also interesting to note certain types of private organizations use employee referrals more often than other organizations. Of those businesses with ten or more responses, finance and high tech reported using ERP's more than other business types. This is consistent with the results obtained by Bernard Hodes Advertising.

The results also indicate that bonuses are not being awarded haphazardly. Seventy four percent of the companies placed a restriction on their bonuses, with most requiring that the referred candidate be employed for an at least three months before the bonus is awarded.

Table 1
Business Types with Referral Programs

<u>Type</u>	<u>N in Sample</u>	<u>% with ERP's</u>
Public Agencies	64	5.00
Manufacturing	43	18.60
High Tech	13	69.23
Natural Resources	7	0.00
Services		
a. Retail	7	71.43
b. Marketing	8	37.50
c. Transportation	2	100.00
d. Communication	9	44.44
e. Finance	15	80.00
f. Hotel/Restaurant	3	33.33
g. Health Care	11	36.36
h. Employee Agency	1	100.00
i. Wholesalers	2	0.00
Miscellaneous	5	40.00

Fifty four of the surveyed companies having a referral program offered some type of bonus. Forty nine companies awarded cash bonus (90%), two awarded savings bonds (3.9%), two awarded gift certificates (3.9%), and one company varied (2.0%). The average cash bonus awarded was \$425.00, with a

range from \$23.00 to \$1250.00.

Analysis revealed no significant relationship between the amount of the referral bonus and the number of applicants referred, and subsequently hired. However, it was found that as company size increases, the amount of the referral bonus also increases ($r = .52, p < .001$). These findings are quite logical in that larger companies would have more money to offer. On this same subject, our results suggest that as the cost-per-hire increases, so does the amount of the referral bonus offered ($r = .45, p < .02$).

References

- Aamodt, M.G., & Rupert, G. (1990). Relationship between employee referrals and employee tenure and performance. Proceedings of the annual meeting of the International Personnel Management Association - Assessment Council. San Diego, California.
- Aamodt, M.G., & Carr, K. (1988). Relation - ship between recruitment source and employee behavior. Paper presented at the annual meeting of the International Personnel Management Association - Assessment Council, Las Vegas, Nevada.
- Bernard Hodes Advertising. (1985). Employee referral policies and programs. Unpublished manuscript, Division of Doyle Dane Bernbach Advertising Inc., New York.
- Blocklyn, P.L. (1988, May). Employer recruitment practices. Personnel, pp. 63-65.
- Carter, R.L. (1985, June). Employee: Finding, training and keeping them. Hardware Age, pp.31-35.
- Farish, P. (1983, June). HRM update: Bonus pays off. Personnel Administrator, p. 14.
- Glickstein, G., & Ramer, D.D.Z. (1988, Feb.). The alternative employee market place. Personnel Administrator, pp. 100-103.
- Magnus, M. (1987). Is your recruitment all it can be? Personnel Journal, 66, 54-63.
- Mondy, R.W., Noe, R.M., & Edwards, R.E. (1987, Sept.). Successful recruitment: Matching sources and methods. Personnel, pp. 42-46.
- Persinos, J.F. (1984, Dec.). Big name hunting. Inc., p. 210.