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Employee referrals: ‘Our hiring created a monoculture’

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It is hardly surprising that the use of internet-based social media in recruitment is causing so much excitement.

It can bring instant access to potential candidates via professional and social networking websites such as LinkedIn, alongside big cost savings in hiring budgets for companies under economic strain.

Social media websites – particularly those in the US – also talk enthusiastically about using existing employees to recommend people as potential recruits as part of their company’s employee referral programme.

While employee referral schemes are not new, accounting for roughly 20 per cent of hiring, technology is enabling them to expand greatly. With large companies such as Intel in the US stating that they save millions of dollars in fees by recruiting senior managers through LinkedIn rather than using headhunters, interest is only likely to grow.

FT Executive Appointments examined this topic in a cover feature in November, focusing on the benefits to businesses of hiring workers referred by existing staff – advocates of using technology in this way say it produces high quality applicants with a good cultural fit with the company.

But not everyone is convinced. Critics argue that the large-scale referrals enabled by technology are bad for diversity and tend to produce “clones” of existing staff as they recommend their friends and family to the exclusion of minority groups – a phenomenon that legislation seeks to outlaw.

Sandra Crawford is a resourcing professional who has worked with companies such as Cisco and Microsoft, both of which used employee referral schemes as part of their recruitment options.

She says: “The best thing about employee referral schemes is that it is a recommendation by word of mouth. Candidates tend to be reasonably well qualified, highly motivated and worth the recommendation.”

But, she says, a weakness of the system lies in its tendency to perpetuate hiring in a particular “image” or type: “At Microsoft in 2002 we found that people were very happy to be working for Microsoft and the referrals came in thick and fast. But then we realised how bad it was for diversity – because Microsoft was suddenly hiring in its existing image alone – and so we developed other strategies to provide some sort of balance.”

These strategies included a very clear scorecard approach, which prevented more than 30 per cent of hiring being done through employee referrals. At the same time, Microsoft increased its efforts at direct recruitment through advertising, using its website, and other campaigns promoting itself as an “employer of choice”, Ms Crawford says. The company also started to use its own career comparison website which specifically targets women.

“In later years, Microsoft re- designed employee referral schemes to incentivise people to think a lot harder about referring women for the roles on offer,” says Ms Crawford. Although it is illegal to hire on the basis of gender alone, it is not against the law to suggest people for roles based on their gender.

But the grey area between friendship and social networking may also cast a shadow over some employee referrals. Virginia Eastman, a headhunter in London covering media, communications and marketing for global executive search firm Heidrick & Struggles, says: “If you are only going to rely on employee referrals you are laying yourself open to an alphabet of potential problems.”

“It is not a thorough enough vetting process. You are not getting the security of 360 degree referencing which headhunters provide. With employee referrals all you get is whether or not someone might be suitable for a role,” she says.

She argues that employee referrals work on consensus, and there is consensus among those who are peers – but there are many things one needs to ascertain about a person in order to determine whether they are right for a job and so such a referral can only be one piece of the puzzle.

Headhunters will, of course, argue in favour of the services they provide, which include taking references on the candidate in question. They tend to agree that companies use referrals because they know what “good” looks like in a particular role but say it is crucial to test the person with tough questions, rather than accepting the judgment of their peers.

Even organisations that regularly use employee referral schemes for hiring have found that they need to be supplemented by other initiatives in order to ensure they are working to full effect.

Paying staff for making referrals is a further complication. New York-based start-up Referrio, an online referral specialist, lists 11 jobs at Cisco and offers about \$2,500 per job for anyone who helps to fill the vacancies by spreading the word among their social networks.

In the UK, James Uffindell, founder and chief executive of Bright Network, is passionate about the fit between social networking and recruitment. As well as helping individuals find a job, Bright Network allows employees to refer people for posts and earn a reward for the referral. Recently, for example, it offered a “Bright Reward” of £7,200 for the successful placement of an individual in a role at a private equity firm.

On its website Bright Network says: “Bright Rewards means you get rewarded to find the most suitable of your friends for the best hand-picked jobs.”

Most employee referral schemes defer half of any payment until after the appointed person has completed three or six months successfully in the new job.

Another criticism concerns the quality of the relationships in some individuals’ social networks. It is one thing, they say, to argue that referred candidates have gained knowledge of the company through the person referring them and are more likely to have the right expectations about the job and its prospects.

But this assumes a degree of closeness between referee and the referred person which might not exist. Not everyone uses a social network in the same way or with the same level of professionalism or interest – and some appear to revel in gathering huge numbers of connections, making the level of their knowledge of those individuals suspect.

Even though companies have used employee referral schemes for a long time, the speed with which they embrace the next step to social media may well depend on the nature of their business and its appetite for risk.

Dan Finnigan, president and chief executive of Jobvite in the US, which offers recruiting software and social recruitment products, was quoted in the FT recently as saying recruits who came into a company by these means “typically come in knowing some people – so they’re a cultural fit”.

But in a world reeling from economic mismanagement where it is in a company’s interest to sharpen scrutiny of appointments, particularly at senior levels, “knowing people” may no longer translate as “cultural fit”.

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