The Quick And Dirty Guide To Creating An Effective Employee Referral Policy

There are several layers to a proper employee referral policy

erin

By **Mike Stafiej**

Okay, so there's nothing "dirty" about this guide, but we wanted a title that you would click. If you're reading this, it worked, and you're probably interested in employee referrals, so forgive our misleading title, and let's jump right in.

This guide will be quick (we didn't lie about that part) but it should still be very useful for anyone that is asking themselves any of these questions:

- Is my employee referral policy good enough?
- Am I paying the right referral bonus for my industry?
- Why am I not getting more employee referrals?
- How do I engage my employees to participate in recruiting?

When looking to tap into your employees to fuel your candidate pipeline, the first thing that comes to mind is "how much should we pay for a referral bonus?". The reality is that there are several layers to a proper employee referral policy. Your policy is the foundation for a successful employee referral program. By providing the right incentives, and structuring it the right way, you can ensure employee participation and avoid costly mistakes.

Referral Bonus

The obvious one is first: how much should you pay an employee for referring a candidate that you hire? The bonus can vary dramatically based on the type of business and level of position, but here are some generalizations that should help:

The average overall bonus is typically between $1000 – $3000. Fast-growing businesses and companies fighting for top talent (typically specialized skill sets, such as developers) will put their standard referral at $5000+. It's also not uncommon to increase the amount based on the seniority of the role, making higher-level positions such as managers, directors, VP, etc closer to $7,500, $10,000, or more.

Businesses with lower starting salaries, temporary hires, 1099 employees, and general fast turn over will be set as low as $100.

While the range can be dramatic ($100 – $10,000) the result of an employee referral often produces a higher quality employee with a better culture fit – at a fraction of the cost of an external recruiter!

Tiered Bonuses

Referrals are a great way to get quality candidates quickly, but what if you could double down on that value and also increase your retention rate? A new trend that is quickly gaining traction is to tier referral bonuses and to also pay a bonus to the candidate. If both the employee and candidate are eligible for an additional bonus in 1 year and 2 years, it will be a big factor in total compensation if they ever consider leaving. Tiered bonuses are also a great way to keep your employees engaged long after the referral is hired, increasing the chance that they will make additional referrals!

Bonus Bonuses

Something you may not have thought about is paying an additional bonus for a better-qualified candidate. For example, paying an extra amount when a candidate brings more years of industry experience or a unique bonus skillset that is in high demand, but not critical for the position. Paying an additional bonus for more desired candidates will communicate to your employees the skillets that your company is willing to invest in, allowing them to be more thoughtful when considering who to refer.

Timeline and Stipulations

An employee makes a referral, you hire them, great! You're done… right? Not yet. It's a best practice to have terms around the employment before the referral bonus is paid. This can help prevent paying bonuses that don't' result in successful employment but also help stress that bad referrals won't pay off.

A common tactic to ensure you've made a successful hire is to set a waiting period of employment before the bonus is paid. For example, bonuses will only be paid after the candidate has been employed for more than 90 days. This helps eliminates the risk for new hires that don't work out. Only pay for the good candidates that become good employees!

Documentation

Your policy, bonuses, and referral activity must be documented every step of the way. This provides your employees with proper explanations on what to expect and gives your management teams specifics on how bonuses are paid and earned.

Make sure that your policy is distributed every time that is updated and provide proper workflows on how referrals are to be made. This will help eliminate perceived obstacles for your employees making referrals (ex I don't know who to speak with about my referral).

Communication

You have the basics down, you're investing in your employee's participation in recruitment, and everything is documented, but no referrals have come in. Establishing a way to communicate with your employees is critical for success. Most businesses make the mistake of not having any strategy for communication, and even when they do it's often only for new or high-profile jobs.

How many times has someone walked into your office or sent you an email asking what happened with their referral? Employees need to be kept in the loop at every stage, from new job postings to a hire or no hire outcome. If referral communication becomes a black hole, you'll see participation rates drop quickly. On the other side, real-time communication will dramatically increase participation. When implementing your employee referral policy take the time to identify what information needs to be shared with employees and the process for making sure that they get that information.

It Doesn't End With Policy Creation

Who on your team will manage the policy? Who will update it when it changes? Who will communicate it to new hires and remind existing hires about it? How will you track payments and how will payroll know when to make a payment? Unfortunately, a successful employee referral policy creates a ton of overhead. Larger organizations have staff 100% dedicated to maintaining the policy and operations of referrals, but you may not have that luxury. Here's the quick plug: software can 100% automate and eliminate the overhead of employee referrals. ERIN provides a beginning to end employee referral solution that makes participation easy and administration completely hands-off. If you're worried about the overhead of employee referrals, or just simply want to offer the easiest and most

intuitive experience for your employees, check out ERIN at www.erinapp.com.

In general, your policy should be precise and easy to follow. The more steps it takes to make a referral, the less likely your employees are to participate. Furthermore, if the record-keeping and communication between your recruitment team isn't strong, employees will be discouraged, producing fewer referrals. Starting with a strong policy is the key to enabling your business to build a strong candidate funnel that will consistently produce high-quality top talent candidates.

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Mike Stafiej is the CEO of ERIN, a Smart Employee Referral Software solution that allows businesses to engage their employees to participate in recruitment. Mike has worked with Talent Acquisition professionals all over the world to provide innovative solutions for their businesses. Mike has worked exclusively in startups for over a decade and has been the co-founder and CEO of multiple startups before founding ERIN. Mike has a Masters Degree in Project Management with undergraduate degrees in MIS and Computer Science.
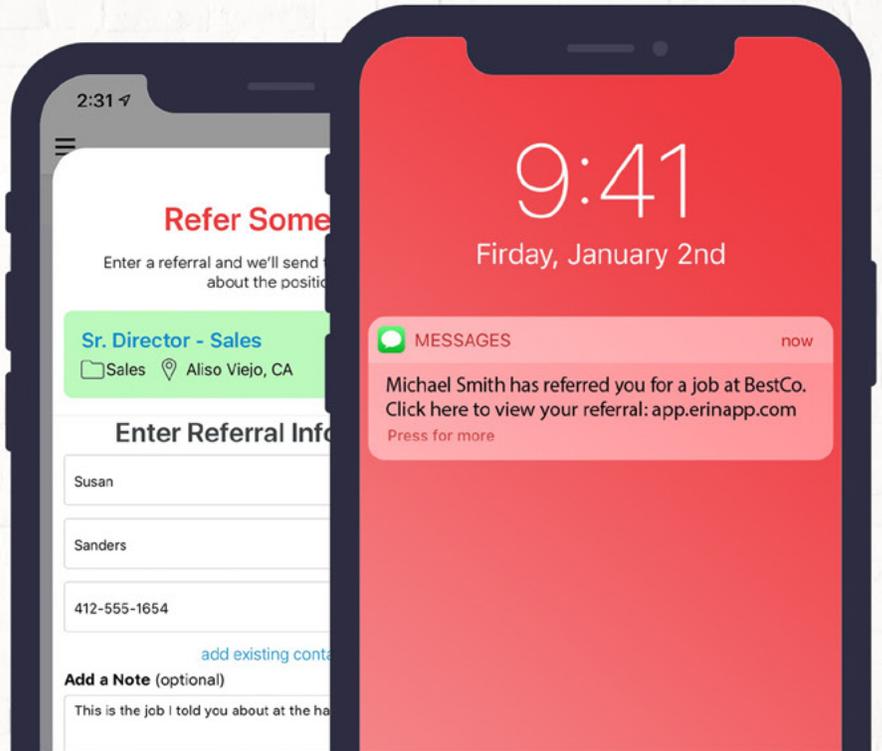
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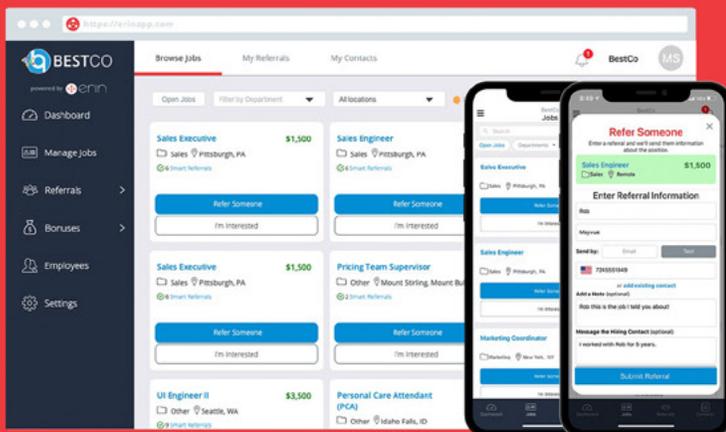
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