

Influence of Various Factors of Employee Referral Program on Perceived Employee Performance in Information Technology Industry

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Article Info

Volume 81
Page Number: 141 – 149
Publication Issue:
March/April 2019

Abstract

Finding right person for the job is a great task for the HR managers, and they spend more time and money in the searching process. Nowadays companies adopt referral program to identify the talented person for the job specified, which is the practice not only in Information Technology industry but also other industries as well. 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. 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 importance and experience of employees towards employee referral program. Data has been collected from 429 IT professionals in Chennai. Result shows that ERP is the shortest path to better quality hires, however, friends referred by the employees may not be selected by the company. Respondents opine that the people they referred were happy in their organization and their performance is good. Among the factors of employee referral program, employee recognition is the highest predictor of perceived employee performance.

Keywords: Employee Referral Program, Referral Bonus, Referrer Credibility, Referral Reward, Information Technology Industry, Perceived Employee Performance

Article History

Article Received: 05 October 2018
Revised: 08 December 2018
Accepted: 18 February 2019
Publication: 30 April 2019

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”.

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.

Regarding negative aspects of employee referral program, it 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

Several reviews have been analyzed on employee referral program and 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).

As far as job performance is concerned, it 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

Aarthi Sharma and Santhi Swarup (2016) (Manivannan & Kathiravan, 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 intention 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.

Sreedevi and Tamizhjothi (2016) concluded that most people strongly agree to the contents in the Questionnaire which means 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.

Need for the Study

Employee Referral Program is nowadays adopted by many organizations, but still some organizations go for agencies to hire employees. Hiring employees from agencies incur more cost

and also the efficiency of the candidate has to be measured with great accuracy. It is the responsibility of the company to select right candidate for the job if they are hired by agencies. But, it is not the case as far as ERP is concerned as it is responsibility of the current employee to refer a candidate for his own company. Hence, it is important to know the awareness about ERP among the existing employees of the organization, and to find out the perceived employee performance of the newly referred employee.

Objective of the Study

1. To analyse the employees' opinion about the importance, experience and expectations of Employee Referral Program
2. To find out the influence of various factors of Employee Referral Program on perceived employee performance

METHODOLOGY

Methodology is an important component of any research. A research design specifies the methods and procedures for conducting a research work. It is to be noted that there are several ways of studying and handling a research problem. The present study falls under the category of "Descriptive studies" as the nature of the problem is to determine the relationship among the different variables (Kothari, 2012). Variables considered for this study are the factors of employee referral program namely job satisfaction, referral bonus, referral reward, employee recognition, personal conflict, work environment, referrer credibility, and organizational attractiveness and the dependent variable perceived employee performance.

In the present study respondents are the employees working in information technology industry in Chennai. It is very difficult to identify the number of

employees working in information technology companies in Chennai. Hence, Cochran's (1963) formula for large population is considered for this study to calculate sample size. 385 is the minimum samples required for the large population. However, Sekaran (2003) suggested to increase the sample size in order to reduce the error rate. Further, in anticipation of non-response and improper responses, the sample size has to be increased. By keeping these issues in mind, it has been decided to increase 20 percent of the calculated sample size which will end up with 452. Hence, it is decided to collect data from 452 samples. The samples are selected based on random sampling method. The information from the respondents is gathered through the use of a well-structured questionnaire. The questionnaire includes a variety of question styles, including open-ended, multiple-choice, and dichotomous questions.

For the present study pilot test was carried out with 50 respondents in an IT company in Chennai to test the validity of the instrument. In this study, the instrument's validity is tested by performing content validity. After collecting the data, it is identified that 23 questionnaires were improperly filled and hence they were discarded from the final lot which ends with 429 samples. According to Nunnally (1978), the Cronbach alpha coefficient values are determined to be above the acceptable range of 0.7, indicating that the items have a relatively high level of internal consistency. After collecting the data, researcher processed the data using SPSS package.

ANALYSIS

The data collected through survey using questionnaire, it is entered into computer for analysis purpose with the help of statistical packages. Following tables shows the analysis part of this research.

Table-1: Mean and Standard Deviation of the respondents' opinion towards Importance of Employee Referral Program (ERP)

STATEMENTS	Mean	SD	Overall	
			Mean	SD
Employee Referral Program (ERP) is the easiest way of Recruitment.	3.648	1.257	3.384	.495
ERP is very Cost Effective.	3.389	1.178		
ERP leads to Harmonious Environment in the organization.	3.772	1.112		
ERP is the shortest path to Better Quality hires.	3.814	1.231		
ERP brings Cultural Bonding.	2.907	1.407		
ERP increases employee retention.	3.207	1.326		
ERP is a marketing tool that promotes employer brand.	3.135	1.341		
Appropriate / Meritorious candidates are obtained via ERP.	3.198	1.341		

Table shows the mean and standard deviation of the respondents' opinion towards importance of employee referral program. Respondents opine that ERP is the shortest path to better quality hires (mean = 3.814; SD = 1.231), which is followed by harmonious environment in the organization (mean = 3.772; SD = 1.112), easiest way of recruitment (mean =

3.648; SD = 1.257), and very cost effective (mean = 3.389; SD = 1.178). However, respondents do not agree that ERP brings cultural bonding (mean = 2.907; SD = 1.407), ERP is a marketing tool that promotes employer brand (mean = 3.135; SD = 1.341), and meritorious candidates are obtained via ERP (mean = 3.198; SD = 1.341). Overall mean value shows that the

respondents show neutral opinion (mean = 3.384; SD = 0.495) towards the

importance of employee referral program.

Table-2: Mean and Standard Deviation of the respondents' opinion towards Employee Experience on Current Employee Referral Program (ERP)

STATEMENTS	Mean	SD	Overall	
			Mean	SD
I have friends who possess the required skill sets mentioned in ERP.	3.576	1.212	3.530	.745
I would like to recommend my friends to my organization.	3.608	1.206		
I have referred my friends through ERP	3.343	1.263		
My referred friends were selected through ERP.	3.091	1.205		
My referral was suitable for the required position.	3.510	1.327		
My referred people were happy in my organization.	3.881	1.124		
My referred people performance is good.	3.743	1.242		
Current ERP system is satisfactory	3.487	1.181		

Mean and standard deviation of the respondents' opinion towards employee experience on current employee referral program. Respondents opine that the people they referred were happy in their organization (mean = 3.881; SD = 1.124). Also, they agree that the referred people's performance is good (mean = 3.743; SD = 1.242), which is followed by recommending friends to their organization (mean = 3.608; SD = 1.206).

However, respondents give neutral opinion for 'my referred friends were selected through ERP' (mean = 3.091; SD = 1.205), which means that all the friends referred by the employees may not be selected by the company. Overall mean value shows that the respondents show positive opinion (mean = 3.530; SD = 0.745) towards the employee experience on current employee referral program.

Table-3: Regression Analysis – Influence of various Factors of ERP on Perceived Employee Performance

Model Summary						
Model	R	R Square	Adjusted R Square	F	Sig.	
1	.981 ^a	.962	.962	69.835	0.000	
a. Predictors: (Constant), Organisational attractiveness, Employee Recognition, Job Satisfaction, Personal conflict, Referral Bonus, Referrer Credibility, Referral Reward, Work Environment						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.641	.271		6.053	.000
	Job Satisfaction	.467	.049	.191	9.481	.000
	Referral Bonus	.224	.021	.196	10.513	.000
	Referral Reward	.128	.018	.145	7.009	.000
	Employee Recognition	.602	.014	.811	41.957	.000
	Personal conflict	.009	.010	.012	.924	.356

	Work Environment	.089	.015	.126	5.971	.000
	Referrer Credibility	.073	.012	.095	6.051	.000
	Organisational attractiveness	-.033	.022	-.033	-1.446	.149
a. Dependent Variable: Perceived Employee Performance						

In order to study the influence of various factors of employee referral program like job satisfaction, referral bonus, referral reward, employee recognition, personal conflict, work environment, referrer credibility and organizational attractiveness, regression analysis was performed. Regression analysis is used to find out the influence of independent variables on dependant variable, which means that among the independent variables, which variable or variables highly influence the dependant variable. This method is widely used in social science. As far as the present study is concerned, ANOVA test result shows that the independent variables (factors of employee referral program) significantly influence dependant variable (perceived employee performance) ($F = 69.835$; $p < 0.001$). Based on the table it also denotes that the R value is found to be 0.981 and R-square value is found to be 0.962, which means that the 96.2 percent of the dependent variable is explained by the independent variables.

Further, in order to find out the most influencing variables, the t-values denote that job satisfaction ($t = 9.481$; $p < 0.001$), referral bonus ($t = 10.513$; $p < 0.001$), referral reward ($t = 7.009$; $p = 0.024$), employee recognition ($t = 41.957$; $p < 0.001$), work environment ($t = 5.971$; $p < 0.001$), and referral credibility ($t = 6.051$; $p < 0.001$) significantly influence perceived employee performance while the remaining factors like personal conflict ($t = .924$; $p = 0.356$), and organizational attractiveness ($t = -1.446$; $p = 0.149$) do not significantly influence the dependent variable perceived employee performance.

Among the influencing variables, “employee recognition” is the highest predictor of perceived employee

performance, which is followed by “referral bonus”, “job satisfaction”, “referral reward”, “referrer credibility”, and “work environment”. That is, if employees are properly recognized for their reference, then the perceived employee performance will be high. Similarly, if the referral bonus provided to the employees, then the performance of the employees will also be increased. If employees are satisfied with their present job, and if they receive referral bonus at right time, then the performance of the employees will increase to a greater extent. In addition to that, referrer credibility and work environment is good or satisfactory, then the employees’ performance will also good.

Hence, it is concluded that among the factors of employee referral program, employee recognition is the highest predictor of perceived employee performance, which is followed by referral bonus, job satisfaction, referral reward, referrer credibility and work environment. However, other factors like personal conflict and organizational attractiveness are the least influencing variables of perceived employee performance.

FINDINGS

Respondents agree that ERP is the shortest path to better quality hires, which is followed by harmonious environment in the organization, easiest way of recruitment, and very cost effective. However, ERP does not bring cultural bonding, and it is not a marketing tool that promotes employer brand, and sometimes meritorious candidates may not be obtained via ERP.

Regarding employee experience on current employee referral program, respondents opine that the people they

referred were happy in their organization. Also, they agree that the referred people's performance is good, which is followed by recommending friends to their organization. However, respondents give neutral opinion for the selection of their referred friends through ERP, which means that all the friends referred by the employees may not be selected by the company.

Regarding factors of employee referral program, employee recognition is the highest predictor of perceived employee performance, which is followed by referral bonus, job satisfaction, referral reward, referrer credibility and work environment. However, other factors like personal conflict and organizational attractiveness are the least influencing variables of perceived employee performance.

SUGGESTIONS

Since, meritorious candidates may not be obtained via employee referral program, it is suggested that, the management can ensure while giving away the instruction, that the qualities and requirements of the candidates and they have to strictly adhere to the norms and conditions. Further, during employee referral program, management can give priority to the candidates who are referred by meritorious employees working in their organization, because meritorious employees will always look for the right candidates with higher credibility.

As all the referred persons are not selected by the management, it is suggested that the management may impose some penalty or some sort of negative points on the referrer, which will help in streamlining the process. By doing so, unnecessary references will be avoided and the management will get only outstanding candidates.

Since, employee recognition is the highest predictor of employee

performance, it is proposed to HR managers that they need to focus on recognizing employees for their service rendered in the organization, particularly in the referral programme. In a nutshell, management should value referrer because they know better than anyone else like what kind of people they would like to work with.

CONCLUSION

Referral program reduces the cost of recruitment to a considerable amount, and improves the recruitment of talented persons for the posts specified. Present study portrays the employees' perception towards employee referral program in information technology industry. Several variables have been considered as the factors of employee referral program like job satisfaction, referral bonus, referral reward, employee recognition, work environment and organizational attractiveness by considering perceived employee performance as dependent variable. Study concludes that if referrers are properly recognized, they will bring highly talented persons for the respective positions, which will make them to get proud and exert improved performance in their job, and at the same time they simultaneously monitoring their referred candidates to grow along with them to reach higher altitudes.

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