

## **ADVICE FROM THE FIELD**

# **Use employees for recruiting**

Today's hiring is focused on finding enough qualified candidates. The record low unemployment is causing companies to reevaluate their hiring practices. One very valuable resource that seems to be overlooked is a lucrative referral program.

### **Active vs. Passive Hiring**

Successful hiring programs before today's economic climate relied solely on "passive" means, in which the prospects made the initial contact. However, since the talent pool today is shrinking, companies must adopt "active" methods, in which their representatives make the initial contact.

During a buyer's market, companies have the advantage, since the available talent is substantial. But today's economy puts the candidates in control. Since only about 5 percent of all the qualified candidates are actively looking for new opportunities, the normal passive method limits the success of a company's hiring program. Using active means to go after the other 95 percent makes more sense. In either case, a smart company uses a mixture of methods to find the best employees.

A typical passive method is the use of advertisements. An example of an active one is the use of a referral program.

### **Intrinsic value opens the door**

The other concept introduced here is "Intrinsic Value" as a measure of hiring success. Taking a company's yearly sales divided by the total number of employees gives the dollar figure showing the economic impact of an average employee. A comparison between competitors will also provide a quality indicator. The company with the higher Intrinsic Value has, on average, the better employees, since they produce more revenue per position.

For this column, we will focus on one other aspect that Intrinsic Value provides—the economic incentive to hire quickly but wisely. A vacant position means the team is short a player's contribution.

### **A resource undervalued**

Hundreds of companies were asked: "Where have you found your best employees?" Invariably, the answer was "through an employee referral." Yet, when the companies were asked what economic incentives they were using to encourage referrals, the answers typically ranged from a savings bond to a few hundred dollars to nothing at all. Just recently, Mike McManus, president of Micro Works Computing Inc. in Brighton, came to the realization that some of his best employees came to him through referrals. So he's formalizing a process to encourage more of them.

Somebody who is ahead of the game is Dan Karagozian, vice president of sales and marketing for Chemtool, formerly in Brighton but now in Milan. He stresses that a referral program is just part of a wide networking program. He makes the gathering of names for future employees a full-time effort.

Is your company's referral reward high enough? Look at the last 10 hires. How many were referrals? Another quick look at the last 10 turnovers might also indicate a different hiring problem. How many were referrals?

### **A great economic return**

From a different viewpoint, if a company's return on an investment was its intrinsic value, what could it justifiably spend on a new project? That is how a referral program should be evaluated. You'll receive no better payback than the one you get when you invest in acquiring top talent.

An alternative way of looking at the expense of an aggressive hiring effort is to consider recruiters' fees. In many years as a

successful recruiter, I can verify that a service fee of \$20,000 or more is common. What if a company took that fee and paid an employee \$5,000 or even \$10,000? Perhaps using employees as recruiters is a better investment.

Nothing can jump-start a stalled hiring effort more than a referral program that generates excitement. One company in particular comes to mind. It was at least a month behind in hiring 30 machine operators. No experience was necessary. The company was competing with fast-food restaurants for the same talent, but was paying substantially higher wages. At the time, the restaurants were paying \$7 an hour while the starting wage at this company was \$10 an hour. The company was so desperate it almost used "mirror hiring": If someone could fog over a mirror with his breath, he was hired.

### **The \$10,000 paycheck**

Once the people at this highly successful company realized that their Intrinsic Value showed the amount of lost opportunity, they shifted their hiring program into high gear. If anyone referred a new employee who remained with the company for 90 days, the reward was \$1,000. On the other hand, if an employee referred five employees within a year, the sliding scale reward went up to \$10,000! That's for a \$10-an-hour position.

At first, a company must limit the number of people invited to participate. Otherwise, the volume of referrals will be overwhelming. However, employees should be the main targets. That's why the reward for employees should be higher. There are several factors behind this thinking. Employees normally will refer not only people they consider good, but people they feel they can work with. And peer pressure plays an important role. In essence, that new employee wears the nametag of the person who referred him/her. Therefore, the company has someone who has a personal stake in the new person's success. Besides, there are fewer chances of personality conflicts when friends refer friends. The only cautionary note is that just because someone is

referred, doesn't mean that he/she should be hired. Everyone has to meet the company's standards.

In this case, the company started with its employees and the local churches. (For \$1,000, a church might give you four tickets to heaven!) The first referral was from a church, which resulted in a newspaper article (free publicity) and a tax write-off, as well as an energized hiring program. The next referral has become somewhat of a legend. An employee used his lunch hour and the company's picnic bench for his recruiting efforts. He quickly earned that \$10,000.

### **Program makes slugs perform**

Not surprisingly, the president would gladly hand out another \$10,000. Of the five employees this person referred, three of them are the very best employees the company has ever hired. The company's "slugs" are even performing better because they know they can be replaced. The "hiring mirror" has been retired. Since today's hiring is tomorrow's success, every means to find and retain top talent should be used. A systematic approach that uses a lucrative referral program will allow a company to beat the competition—unmercifully.

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