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SOLVING THE SOURCING CHALLENGE:

LEANING INTO REFERRALS TO DRIVE
IMPROVED HIRING OUTCOMES

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INTRODUCTION

Sourcing talent remains one of the most challenging areas of talent acquisition. The process of finding talent in today's labor market is costly, time consuming, and for many companies, ineffective. While 64% of companies have increased their investment in sourcing and talent discovery this year, 63% of companies are not measuring their return on investment. For many companies, sourcing is reactive.

With the labor shortage, remote work, and industries competing for talent, companies must think more strategically about how they source talent. Hiring teams must shift to building relationships and stronger talent pipelines so that they stay prepared for the unexpected. According to Aptitude Research, 72% of companies are rethinking their sourcing efforts this year and many are starting with their employee referral programs.

Employee referrals have long been considered the holy grail of talent acquisition. They have the potential to improve quality of hire, reduce time to fill, and impact employee productivity and retention. According to Aptitude Research, 84% of companies believe employee referrals are the most cost-effective way to find talent. Most importantly, employee referrals bridge the gap between recruitment and retention by engaging both new hires and existing employees in the hiring process, and raising awareness for employer branding efforts.

Despite these benefits, many employee referral programs fail to deliver results. Companies struggle with low participation rates, lack of support, and poor communication. Failure happens when programs do not make life easier for employees or recruiters and are not aligned to broader talent acquisition goals including internal mobility, DEI, and retention. Fortunately, technology and automation can help companies create more consistent and meaningful relationships, expand talent pools, and track and measure effectiveness. Employee referral technology is quickly becoming a core capability in a modern TA tech stack.



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This report, based on data collected in 2022, will look at the challenges, strategies, and technology enablers impacting sourcing approaches and the inclusion of employee referral programs. It will help answer the following questions:

What are the challenges with sourcing talent today?

What is driving the investment in employee referrals?

What are the benefits of employee referrals?

Why do most employee referral programs fail?

What strategies and technology options should companies consider?

Research Methodology

Quantitative Research:

322 responses for TA and HR VP Level,
Recruiters/Sourcers/IT Professionals.

Company Sizes:

18% SMB (250-999)

22% (1000-4999)

28% (5K-999K)

32% Enterprise (10,000+)

Qualitative Research:

Interviews with TA and HR leaders in 2022



KEY FINDINGS

1

Most companies are not measuring ROI

Companies have increased their spend on sourcing over the past year. One in three companies have five or more sourcing solutions in place, yet 63% of companies are not measuring the ROI of their investments. Companies continue to spend on solutions that are not driving value. As companies rethink their sourcing efforts, defining goals and measuring success must be part of the equation.

2

Referrals are the number one source of hire

Employee referrals have long been overlooked, but are considered the most effective hiring source. They improve quality of hire by leveraging relationships to attract and find talent, while enhancing efficiency in the hiring process. Companies that use employee referrals are two times more likely to improve quality of hire. Companies are turning to employee referrals and looking to improve their programs as they prepare for the uncertainty of the next year.

3

Most employee referral programs fail because of communication

Although 82% of companies use employee referrals in some way, most programs fail to drive consistent results. Adoption lags because employees are not aware of referral programs, or they do not have an easy way to share opportunities with their network. Companies that provide links so that employees can share jobs on social media and through text were three times more likely to see employee participation.

4

Technology has come a long way

Historically, companies would have to rely on their ATS to support employee referrals or provide information on a company intranet or employee portal. Employees would be responsible for downloading a form to submit and recruiters would need to manually track this information in the ATS. Fortunately, companies now have better technology options focused on enhancing employee referral capabilities. Employees can easily find information about referrals, share information through a link to friends, and track the progress. These solutions are helping companies optimize employee referral programs and provide a better experience for recruiters, candidates, and employees.

THE STATE OF **SOURCING**

Companies have focused heavily on sourcing over the past year – either building out internal expertise, outsourcing sourcing activities, or investing in new technology – often with diminished returns. One in three enterprise companies have an internal sourcing team responsible for finding candidates, and for 60% of those companies, communication skills are the most important competency. Companies need support as remote recruitment, changing labor conditions, and competition for talent has made a challenging process even more complex. Yet, many sourcing strategies fail to deliver results. Only 26% of companies are satisfied with their sourcing efforts today.

For most companies, sourcing remains very reactive to changing business demands. Companies are spending more but seeing less of an impact. When things are going poorly, companies tend to throw more money at job boards and advertising without examining what actually delivers value. Over the past year, 64% of companies have increased their spend on sourcing efforts, while 33% of companies continued to invest the same (See Figure 1). Additionally, 93% of companies are continuing to invest the same or increase investment in job boards.



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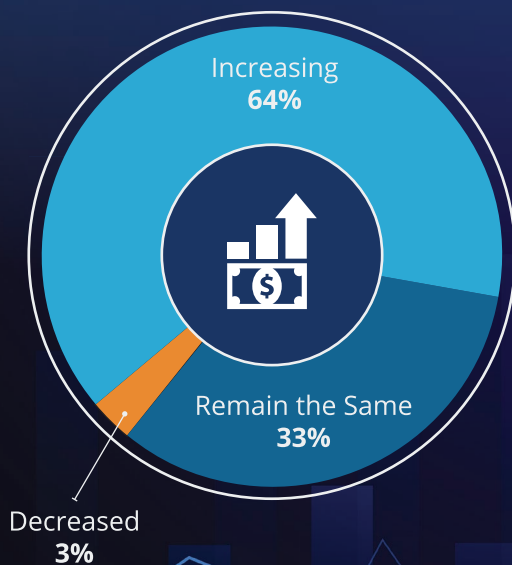
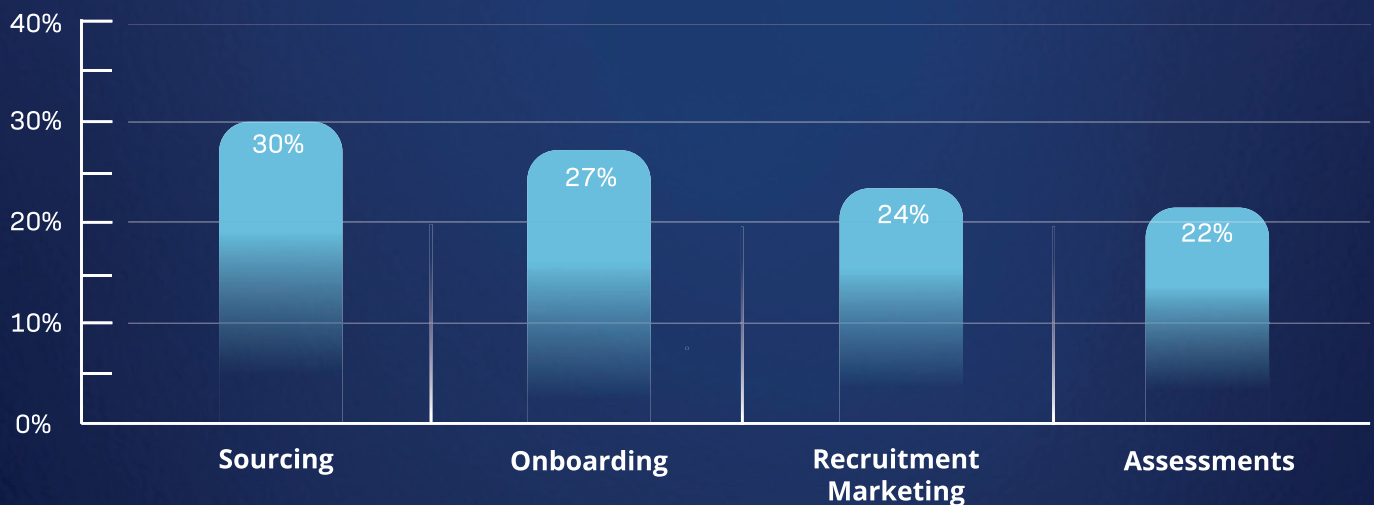


Figure 1: *Investment in Sourcing*

As a result, sourcing is one of the largest investments in talent acquisition. And, as the market becomes more crowded, it is not always clear where this money goes. When asked what areas of TA technology companies are looking to replace in the next 12 months, sourcing was at the top of the list – above recruitment marketing. Companies are looking to replace what they are using, but not necessarily finding quality talent from their additional investment or changes.

Figure 2: *Top Areas of TA Tech Replacement*



Understanding Sourcing Challenges

With increased competition for talent and a shortage of critical skills, companies need to think differently about traditional sourcing methods. Innovation in technology is helping drive this change, but with thousands of providers and startups entering the market, companies are not always clear where to look.

When asked to identify the top challenges with sourcing, companies stated finding diverse candidates, difficulty searching in the ATS/CRM, poor technology, limited in-house expertise, and too many solutions.

Figure 3: *Challenges with Sourcing*

- Finding Diverse Candidates:** Diversity in talent acquisition starts with sourcing. Companies will not be able to hire diverse talent if they do not source diverse talent. Unfortunately, many companies continue to advertise and source from the same job sites out of habit without considering more diverse sites – this limits reach into broader and more diverse pools of talent.
- Difficulty Searching in the ATS:** TA technology search options can frustrate recruiting teams and make it difficult to find talent. When asked where recruiters spend their time, 40% stated that they spent most of their time looking for candidates in the ATS. This not only inhibits sourcing effectiveness, but results in recruiter burnout and turnover.
- Lack of Good Technology:** Traditional TA technology was not designed for the modern recruiter or candidate. Companies must consider mobile-optimized solutions that will allow recruiting and sourcing teams to not only find candidates quickly, but engage with them quickly and through the channels they prefer.
- Limited In-House Expertise:** Sourcing effectively is a learned art, and companies that have built in-house sourcing teams are not always hiring experienced sourcers. Often, companies move recruiters to staff the sourcing function with little or no experience or training in sourcing. This lack of expertise makes it challenging for companies to be competitive and confident in their sourcing efforts.
- Too Many Solutions:** One in three companies are using more than five different sourcing solutions, yet not seeing any impact to their sourcing efforts.

Navigating the Sourcing Landscape

Sourcing solutions span several categories:



Job Distribution

Manage all job posting activities, integrations, and analytics.



AI-Matching

Take job seeker's qualifications and match them with employer and job requirements.



Resume Sourcing

Identify resumes online from job boards, ATS, and social networking sites.



Job Search Engine

Search millions of job listings across the web.



Talent Communities

Create a community of talent to support sourcing efforts.



Employee Referral Solutions

Automate the employee referral process.



Social Media

Leverage the power of social media to create branding and source jobs.



Search Technology

Search for candidates using keywords or semantic search.



Campus Recruiting

Use solutions dedicated to sourcing early talent.

Even with the multiple options and increased investment, 69% of sourcing is still done manually. Companies are automating parts of the sourcing process, but recruiters and sourcers are still required to spend hours each week searching for talent.

Companies need to balance the art and science of sourcing. The art includes relationship building activities, and the science involves measuring and evaluating the effectiveness of source of hire. The future of sourcing requires companies to juggle both skillsets – connecting with candidates in a human way while delivering value to the organization. Figure 4 shows the shift in sourcing across people, process, and technology.

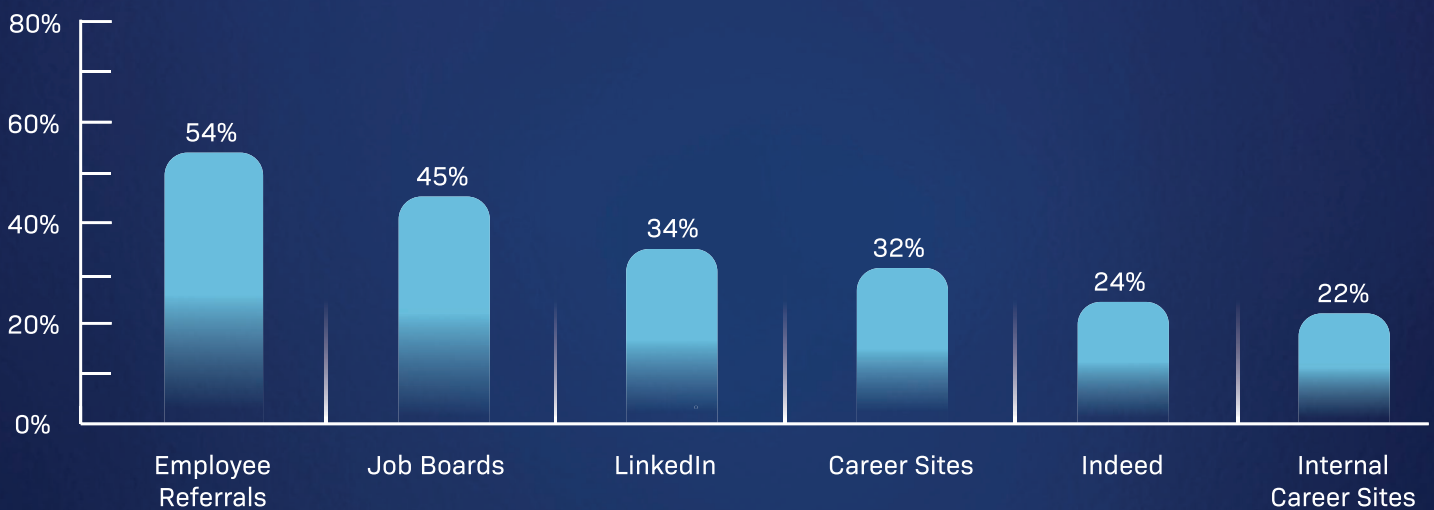
Figure 4: *Reactive vs. Proactive Sourcing*

	Reactive	Proactive
 People	Using third-party recruiters or inexperienced teams for all sourcing efforts	Many companies are bringing their sourcing function in-house instead of relying solely on third-party recruiters. By hiring sourcers or including a dedicated sourcing team in the recruitment function, organizations can have greater control and visibility into the way they source and more understanding of their business needs.
 Process	Responding to hiring needs as they arise and using traditional sourcing strategies.	Companies must understand what sources drive the most value, how to source from diverse talent pools, and how to build stronger talent pipelines.
 Technology	Leveraging job boards or LinkedIn for all sourcing needs.	Sourcing requires several tools and strategies to be successful. For years, organizations relied on job boards for all sourcing efforts. Today, technology enhancements give organizations better options and a way to automate more effective methods of sourcing, including referrals.

Focusing on the Most Effective Source of Hire

One way that companies are looking to build more effective sourcing strategies and address hiring challenges is shifting resources towards employee referral programs. As companies continue to invest in traditional channels like job boards and career sites, employee referrals remain the top source of hire among job boards, LinkedIn, career sites, and Indeed (see Figure 5).

Figure 5: Top Sources of Hire



According to Aptitude Research, 82% of companies have some employee referral program in place today. Employee referral programs engage current employees to help find potential hires, usually with a referral bonus or reward that may range from \$500-\$5,000. Unfortunately, most employee referral programs fail – creating frustration for both employers and employees.

Let's look at the impact of employee referrals on talent acquisition efforts, and the strategies and technology companies should consider to build successful programs.



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THE IMPACT OF **EMPLOYEE REFERRALS**

Employee referrals create a foundation of trust between employers, employees, and candidates. Employers must trust that employees will attract quality talent, candidates must trust that the opportunity being presented is a good fit, and employees must trust that they'll be rewarded for their efforts. A strong employee referral program will enable companies to reduce turnover, improve quality and speed of hire, and reduce costs. Aptitude Research found that companies that consistently invest in employee referrals improved the following:



The value of employee referrals exists during both strong and weak economies. Over the past year, as hiring ramped up and competition for talent increased, companies turned to employee referrals to better engage employees, improve efficiency, and identify quality talent.

During an economic downturn, employee referrals offer a more effective and cost-efficient way to meet hiring goals without wasting advertising spend. For example, when hiring slowed down and resources become scarce in 2008, some companies increased employee referral initiatives to fill 50% of their hiring needs. In addition to saving costs, employee referrals bridge the gap between recruitment and retention by engaging both new hires and existing employees in the hiring process.

Benefits of Employee Referral Programs



Strong Economy

- **Improve Efficiency** – Allows companies to quickly identify talent using employees and brand ambassadors.
- **Improve Quality of Hire** – Identify what makes a successful hire and engage employees through the process.
- **Reduce Turnover** – Engage and incent employees to support employer branding and hiring goals.



Weak Economy

- **Improve Quality of Hire** – Identify what makes a successful hire and engage employees through the process.
- **Reduce Costs** – Provide a more cost-effective sourcing option and provide clear insights and ROI into source of hire



In today's talent crisis, employee referrals check every box. Yet, many companies face challenges with designing and implementing a program that moves the needle on hiring. Traditional technology providers offer limited capabilities that do not provide a simple, mobile-first experience to employees. The result of most employee referral programs is that they are not part of the talent culture and employees miss out on the opportunity to participate.

CHALLENGES

Currently, only one in three companies are happy with their employee referral programs. Many referral programs fail when companies exclude senior management; cannibalize their own diversity programs by hiring the same type of employee; require a large investment in time, energy, and money; or have no way to measure the results. Employee referral programs face four main challenges:

- **They are not integrated into broader talent strategies or existing technology.** Employee referrals are often not viewed as a critical part of a company's talent acquisition or sourcing strategy. Instead, companies design them as isolated programs that are not communicated effectively. Employee referrals should support overall TA priorities, DEI initiatives, and employee engagement efforts.
- **They are not communicated in a way that is simple and intuitive.** Communication is a significant challenge with employee referral programs. Companies are relying on email or managers to convey information about referral programs and many employees do not open their email. Communication must be simple and easy to share with employees.
- **They are not automated.** Technology enables hiring teams to scale employee referral programs, build relationships, and offer consistency and accessibility. They provide accountability and visibility for these programs while helping companies reach broader pools of high quality talent in a more efficient way.
- **They lack employee participation.** Only one in two companies state that employees actively participate in employee referral programs. Companies must continually engage employees and use participation as a metric for success.

Without a strategy or the right technology, employee referral programs are difficult and tedious to implement and are not embedded in the overall talent strategy.

STRATEGIES

Companies can see improvements to their employee referral programs in a short period of time. When asked what companies are doing to improve employee referrals, most companies depend largely on offering incentives to employees. Less than 50% of companies are informing employees of these programs, integrating employee referrals in their ATS, or including internal mobility in these efforts. Incentives will offer little impact if employee are not sure where or how to refer talent.

Figure 6: Key Strategies for Employee Referrals



Companies looking to amplify their employee referral programs and increase participation should consider the following strategies:

Make DEI a Priority

Sixty-five percent (65%) of companies with high-volume recruitment needs are not satisfied with their current ATS. Most traditional ATS systems are designed for traditional corporate hiring and lack capabilities to support high-volume recruitment such as dynamic career sites, programmatic advertising, scheduling, or conversational AI. The fewer systems that companies need to manage, the better.

Technology is transforming every aspect of talent acquisition including how companies attract, recruit, and hire. Companies that recruit hourly are turning to conversational AI to power their entire recruitment experience from attraction to onboarding.

Companies should also consider the following

- **Training** - Companies can invest in training and education to better inform employees on these goals.
- **Technology** - Technology can help companies reach more diverse talent pools and get visibility from diverse candidates.
- **Partnerships** - Companies that include more diverse individuals in their employee referral programs can align DEI efforts with these programs. Companies should consider their alumni, partners, and customers.

Align Referrals and Internal Mobility

Internal mobility is a strategic priority for any company looking to better recruit, engage, and retain talent. The pandemic, labor shortage, and The Great Resignation have forced companies to rethink how they empower their workforce.



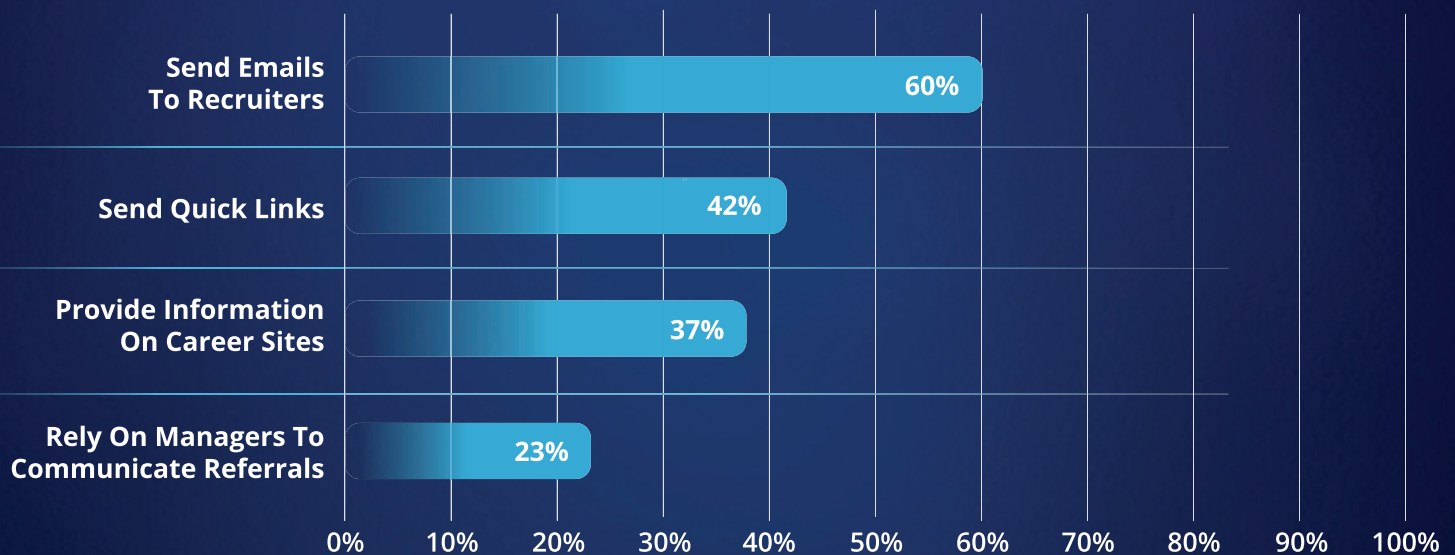
70% of companies have increased their investment in internal mobility this year, compared to 58% of companies in 2020.
Yet only 50% of companies have increased the number of internal hires this year.

Companies looking at improving employee referrals must find a way to align internal mobility and referrals. One of the greatest challenges with internal mobility is that managers will not share jobs with direct reports. If employees and peers are empowered to refer candidates and share jobs with colleagues, internal mobility and referral programs will both benefit.

Improve Communication

The number one reason that employees do not participate in referrals is that they are not aware of these programs, or participating is too difficult. Companies must focus on improving communication methods and content to boost adoption. Communication should be simple, straightforward, and mobile-first. Although 96% of companies recognize that stronger communication drives results, most candidate communication is ineffective and inconsistent. In fact, only 43% of candidates read their email messages from recruiters.

Figure 7: *Communicating Employee Referrals*



Companies must consider the method of communication and the tone of the communication. Some technology providers offer the option to share links for referrals on social media or through text. These “quick share” options have the potential to reach a broader talent pool and drive more awareness for employee referrals. The tone needs to be simple and intuitive. Employees should not be required to download forms or search for additional information. By providing one system to track referrals, employees can access the information they need in an easy way.

Measure Effectiveness

To identify whether a program is improving or successful, it's important to track the results. Companies must define goals for their program, which may include improvements in time to fill, employee engagement, or quality of hire. Then, they must measure their effectiveness which may include:

The number of referrals



The number of diverse referrals



The number of internal hires from referrals



The number of referrals who were retained in the first year



The number of referrals who were hired



The candidate experience for employee referrals



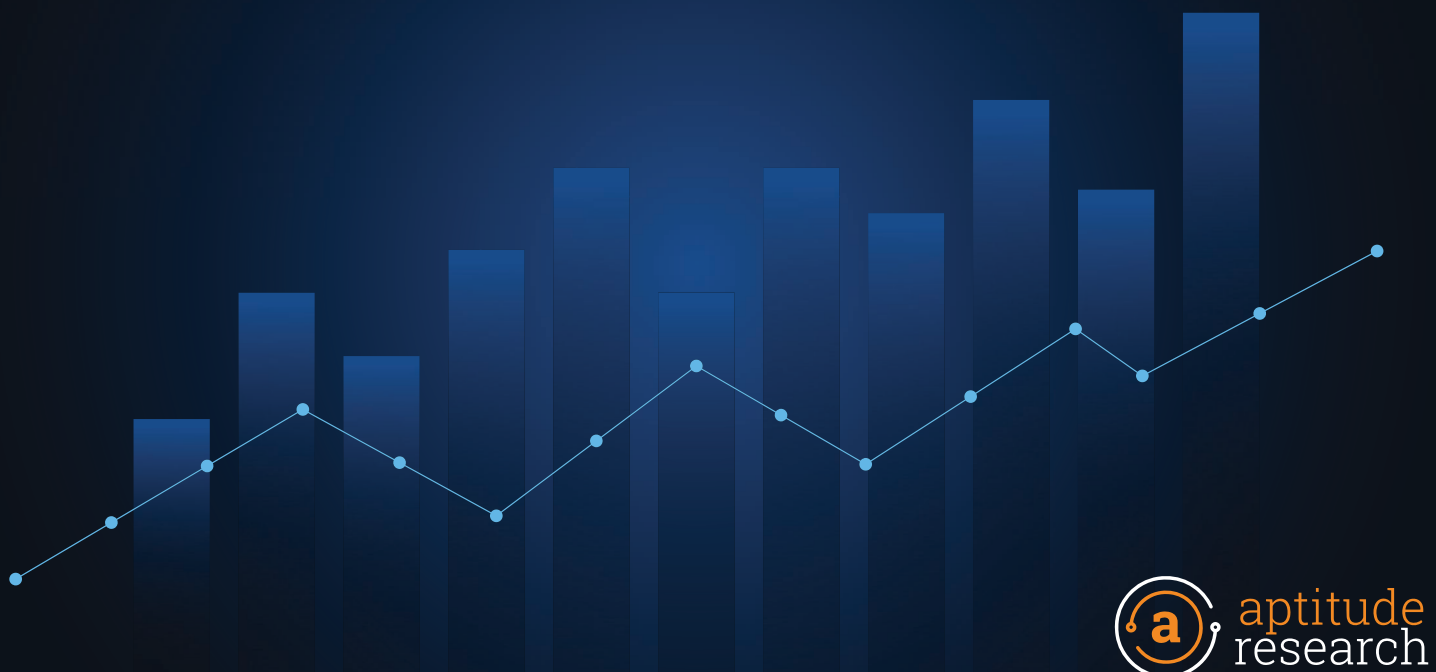
The time to hire a candidate once they received the referral



The time it takes a candidate to apply for a job once they receive a link to a referral



How managers and employees feel about the program



TECHNOLOGY

Employee referrals are becoming a critical category in talent acquisition technology. As companies look for solutions to improve their programs, they have options for traditional technology and stand-alone employee referral solutions. Many of the traditional ATS providers offer limited capabilities for companies to track referrals as a source of hire, but lack deep domain expertise in what makes referrals successful. Three factors are influencing technology decisions today:

- **Companies are increasing their investment.** According to Aptitude Research, 62% of companies increased their investment across all areas of TA technology in 2021 and 73% of companies plan to continue to increase that investment in 2022. The demand for technology to support every area of recruitment has never been greater.
- **The landscape is more complex than ever before.** On average, companies are investing in over 10 recruitment solutions, but only 50% of companies measure the ROI. Traditional providers are reinventing themselves and new providers are entering the market every month. Navigating the complexity of this market is a challenge for even the most sophisticated buyer.
- **The ATS is not enough.** The modern talent acquisition approach is more than a workflow or a traditional ATS. It includes recruitment marketing, CRM, onboarding, and internal mobility. Many providers have enhanced their interview management capabilities, have dabbled with AI-matching, and have made commitments to diversity, equity, and inclusion (DEI). But many of these providers do not have capabilities to support areas such as employee referrals and referrals are not always tracked properly. An employee can share information about an opportunity, but that will not stop someone from going to the career site to apply for the job. The ATS will only track the career site as the source of hire.

Dedicated employee referral solutions leverage the power of relationships to connect employees. Currently, 34% of enterprise companies are using employee referral capabilities outside of their ATS.

Capabilities included in this technology are:

- Referral links to share jobs through social media, text, or email
- Automated and continuous communication to inform and encourage employees about referral opportunities
- Dashboards to track all progress around communication, referrals, applies, and rewards
- Automated rewards for employee referrals
- Mobile capabilities for deskless workers to be able to participate easily



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The benefits of these solutions include

- **Improved Candidate and Recruiter Experiences** - Candidates, employees, and recruiters can access the information they need in a way that is simple and straightforward. Employees can easily share opportunities with their network and companies are able to track these efforts.
- **Increased Participation** - Employee referral programs are often limited to current employees. Companies that extend these programs can expand their talent pool and attract quality hires. Current employees are not the only individuals who understand company culture and what makes a successful hire. Companies that expand their programs are including alumni, customers, and partners. Technology allows companies to reach a larger population to participate in these programs.
- **Track and Measure Effectiveness** - Tracking source of hire is challenging when candidates can easily go to a career site and apply. An employee referral system makes it easier to track what hires come from referrals, reward employees, and measure effectiveness.

CONCLUSION

Companies that are looking more strategically at sourcing this year must evaluate their referral programs. Employee referrals can improve the candidate experience, quality of hire, and time to fill. It also impacts cost savings. Companies with strong referral programs share a few common characteristics including aligning referrals to overall talent initiatives, improving communication strategies, investing in the right technology, and measuring effectiveness.

- **Focus on Communication:** Many employee referral programs fail as a result of poor communication. Only 43% of candidates read their emails. Companies must meet employees where they spend their time including providing quick links to share referrals.

- **Include Internal Mobility:** Employee referrals can help to enhance internal mobility efforts. One of the greatest challenges with internal mobility is that managers will not share jobs with direct reports. If employees and peers are empowered to refer candidates and share jobs with colleagues, internal mobility and referral programs will both benefit.

- **Invest in the Right Technology:** Employee referrals can help improve sourcing and talent acquisition efforts. The right technology can ensure that these programs are simple, consistent, and driving the right results

ABOUT US



Aptitude Research is a leading human capital management (HCM) research and advisory firm. Our in-depth research and vendor assessments help HR leaders develop a deep understanding of the HCM technology landscape, including talent acquisition and engagement, to ultimately make better purchase decisions.

Our flagship research, The Aptitude Index Report: delivers a comprehensive look at talent acquisition trends and technology. This knowledge, combined with our consulting and advisory services, enables companies to save time, money and improve the recruiting, hiring and workforce management experience.

Founded by leading analyst Madeline Laurano and based in the Boston area, Aptitude Research provides a wealth of HCM expertise to companies, vendors and investors. View our recent and upcoming research at www.AptitudeResearch.com or connect with us on [Twitter](#) or [LinkedIn](#).



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