

Do employee referral programs negatively affect diversity in the workplace?

Employee referral programs are typically an effective and convenient method of recruitment for employers. The process is a cost-effective measure that can be used to tap into a large qualified talent pool and can yield higher employee satisfaction and retention rates.

Candidates obtained through an employee referral program are usually good cultural fits and may need less organizational integration when hired. But while an employee referral program is a great recruiting tool, the program may create an unintentional disparate impact on some protected groups if employees refer candidates of the same race, religion, national origin or any other protected class.

In enforcing Title VII, the EEOC prohibits employers from using neutral employment policies and practices that have a disproportionately negative effect on applicants or employees of a particular race, color, age, religion, sex (including pregnancy), national origin or disability. Therefore, relying heavily on employee referrals as a recruitment method may jeopardize workforce diversity efforts by unintentionally creating an imbalance in the diverse makeup of the workforce—an imbalance that could continue to multiply over time. To reduce the potential for disparate impact, employers should conduct an annual analysis to measure the effect of their employee referral program on the applicant pool, final candidates, annual hires and the subsequent workforce population.

To avoid unintentional discrimination or an imbalance in the diversity of candidates when managing an employee referral program, the HR department might consider implementing the following practices:

- Ensure you are using various recruiting mediums when advertising vacancies in the organization. This practice allows for the inclusion of various racial and ethnic groups, creating a more diverse candidate pool and workforce.
- Track your talent channels to determine if applicants and hires from each channel tend to belong to a particular demographic. If referrals are mostly white males, for instance, how can other channels attracting women or minority applicants be invested in?
- Consider a pay equity analysis by talent channel to determine if the referral system is leading to pay inequities that may cause problems down the line.
- Ensure employee referral programs are open to the entire organization and not limited to specific groups of employees, departments or even divisions.
- Expand the referral program to include candidate recommendations from vendors, business partners, customers or even social media followers if appropriate.
- Evaluate all applicants, including employee referrals, using the same qualification criteria. If employee referrals immediately go to the top of the list, they may be receiving preferential treatment that undermines diversity.
- Consider setting annual limits for employee referrals. Limits based on the number of referrals each employee can make, the amount of incentive pay an employee can receive for a referral, etc. can help regulate your referral program.
- Explore the idea of increasing referral bonus amounts for diverse candidates. When used to mitigate a referral system that mostly attracts non-diverse candidates, the chance of unlawful discrimination is actually reduced.
- Conduct ongoing analyses of the workforce and the applicant pool to ensure the program remains effective and yields intended results. Analyze the diversity categories as well as the quality of hire, resulting tenure from referrals and other factors. If the employee referral program is not having an impact and is negatively affecting the diversity of the workforce, then the program may need to be reevaluated.

- Determine where recruitment funds are best spent on an annual basis. Should recruitment funds be used for promoting and funding the employee referral program, developing internal candidates or making more robust external recruiting efforts? Consider shifting funds to more diverse recruiting methods when the referral program is having a negative impact.

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