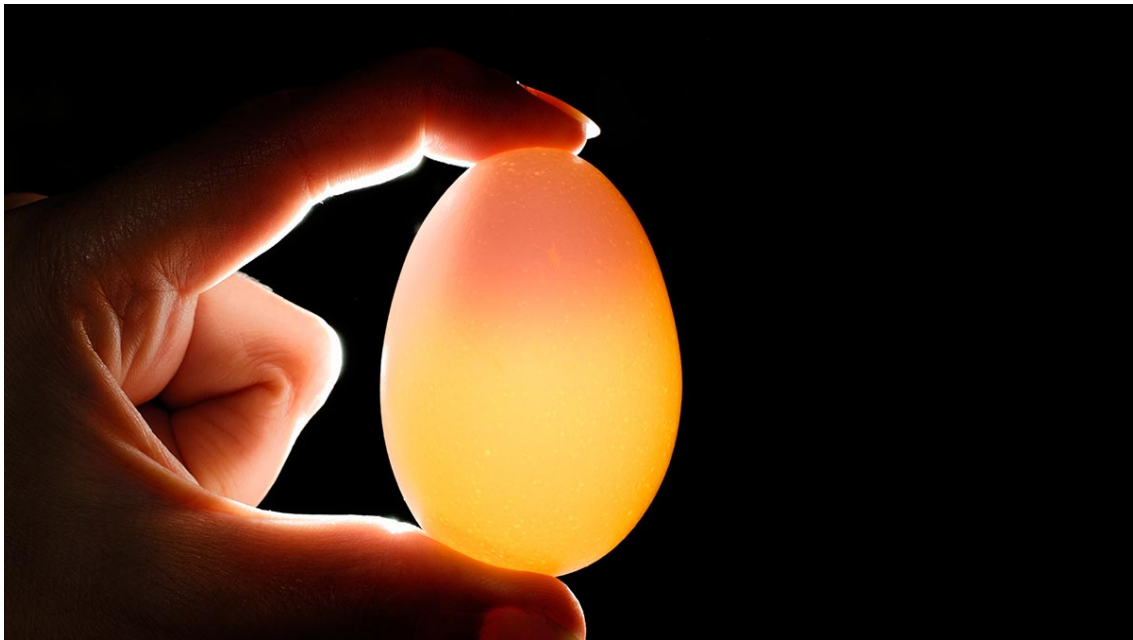


Developing Employees

The Best Way to Hire from Inside Your Company

by JR Keller

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A few years ago, I started to notice an interesting trend: Frustrated with finding and integrating good external candidates, organizations were beginning to invest increasing amounts of time, energy, and money into developing their internal hiring capabilities.

There is reason to believe these investments will pay off. Recent research by my Wharton colleague Matthew Bidwell, for example, shows that internal hires routinely outperform external hires.

Internal hiring, however, is not foolproof. In fact, a study by CEB found that 40% of internal moves involving high-potential employees end in failure. And these are presumably the employees whom the organizations *should* have the most detailed information about.

My colleagues and I started combing through the literature to better understand what, exactly, is going on here. We found that while advice and research about hiring from the outside is easy to find, information about internal hiring can be difficult to come by.

So we set out to find some answers by analyzing the two primary ways internal hires are made: posting and sponsorship.

Posting is a formal, market-oriented process in which a hiring manager posts an open job to an internal job board and invites interested internal candidates to apply. While less than half of companies posted anything other than blue-collar jobs in the mid-1980s, that figure rose to 60% in 1999 before exploding to over 95% in the mid-to-late-2000s.

However, few internal hires are made that way: Although many companies have adopted policies encouraging managers to post open jobs, few require it, and no state or federal laws require firms to post jobs internally. Managers therefore typically have the option of bypassing the posting process in favor of *sponsorship*, an informal, relationship-oriented process in which a hiring manager fills an open job with a candidate known through a personal connection. As a result, posting and sponsorship operate side-by-side as equally viable ways to identify potential internal candidates within most firms.

But does one of these processes result in better internal hires? We expected to find that sponsorship would, on average, yield higher-quality hires. After all, research has shown that people typically have better information on colleagues they know well than those they don't, which should enable us to make better hiring decisions. This is one of the primary reasons organizations rely so heavily on referrals when hiring externally.

Surprisingly, we found the opposite. Using data on more than 11,000 internal hires made between 2007 and 2012 in a Fortune 100 firm, we found that candidates hired through internal postings outperformed sponsored internal hires on nearly every conceivable dimension of quality. They received higher competency and contribution ratings (two different measures of performance) during their first year on the job, and were both more likely to be considered top performers (rated in the Top 25% of the performance distribution of peers in similar jobs) and less likely to be considered poor performers (rated in the bottom 25%).

Moreover, internal candidates hired through internal postings were 20% less likely to quit or be fired during their first two years on the job than sponsored internal candidates.

Why does posting lead managers to make better internal hiring decisions? For starters, even the most connected managers in large organizations cannot be expected to know about every potential candidate for an open job. By enabling employees outside a hiring manager's personal network to present their qualifications, the posting process reduces the likelihood an exceptional candidate will be overlooked.

In addition, while hiring managers do possess more information on candidates in their personal network, access to information alone is not enough to ensure a good decision; managers must still select which information to use and which information to ignore. Work by Max Bazerman and Dolly Chugh on the concept of "bounded awareness" has identified two common decision-making errors related to managers' use of information. First, managers often overlook information that could improve their decision-making. The mechanics of posting require a manager to create a formal job description, which in turn establishes a set of criteria against which to evaluate potential candidates, whereas sponsorship lets managers informally mold the job requirements around their preferred candidate rather than evaluating the candidate against the requirements of the job. Having a set of formal evaluation criteria

increases the likelihood that a hiring manager will be more likely to both recognize and seek out information that allows her to evaluate a candidate's ability to perform well in the job.

Second, managers often allow information that is irrelevant to the decision at hand to influence their choice. For example, the fact that a candidate may share similar interests as the hiring manager may bias the decision even if it has little relevance to the candidate's ability to do the job. Posting reduces the likelihood that this information will influence the hiring decision by embedding a unique form of accountability into the hiring process. And because it forces managers to rely on objective information, postings can help minimize any sense of unfairness that could decrease motivation among other employees.

Some of our other findings were equally interesting. We found, for example, that the posting process holds tremendous promise for transferring valuable knowledge across internal organizational boundaries. Posting is substantially more likely to facilitate moves across divisions, functions, states, cities, and even increases the frequency of moves across buildings within the same city. Employees also appear to feel more empowered to negotiate their salaries when moving through posting, which may help to reduce salary discrepancies between men and women.

While our work suggests that organizations should think seriously about expanding their use of posting to facilitate internal mobility, doing so might meet some resistance — but that might actually be a good thing. Cisco, for example, developed an in-house posting system called Pathfinder in the early 2000s. Many managers complained that this allowed their most valuable employees, employees they had spent substantial time developing, to leave for greener internal pastures. The company's leadership, however, responded that if a manager didn't want their best employees to leave, they should get better at managing them.

In other words, an added benefit to posting may be that it creates good bosses, too.

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