

Dr. Amy C. Lewis,
Texas A&M University, San Antonio
with Andrea Derler, Catherine “Kater”
Cheek, and Mike Everitt, Visier Inc.



Why do managers hire externally even when it is against their best interest?

Replacing talent lost during the Great Resignation has become a business imperative for many organizations. As we investigated the Visier Community Database for talent movement trends across the past three years, we found that even before the COVID pandemic began, organizations have consistently been hiring more external talent than they were losing through resignations.

But we discovered something else: as we compared resignation rates—external hiring and internal hiring rates—external hire rates have been consistently higher than internal hire rates across that same period (see Figure 1).¹

Monthly Resignations, External and Internal Hire Rates Across Industries and Demographics

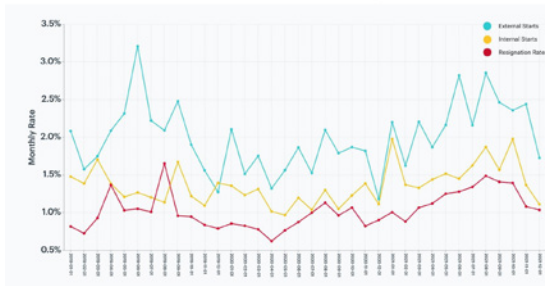


Figure 1. Monthly resignations, external and internal hire rates across industries and demographics. Source: Research & Insights Group, Visier Inc. 2022

In 2021, for example, employees moved between organizations at a much higher (annualized) rate of 27% than internally at an annual rate of 19% in 2021.

Some of our other findings included:

- The need for external talent grew in manufacturing and healthcare, which hired externally at the highest rate
- Individual contributors were more likely to be hired externally than managers
- People moved externally at almost the same rate

Why is the focus on external talent so consistently stronger than working with the talent that is already in the organization?

The eternal dilemma: internal versus external hiring

Ask your CFO if they would like to give everyone at the organization a 30% raise. According to The Conference Board (<https://bit.ly/3wBp3Qw>), nearly a third (29 percent) of employees who left their organization during the pandemic are making over 30 percent more, which means hiring externally may cost an organization up to 30 percent more than what the previous role paid. This can lead to salary compression, or even salary inversion, where the new hire with less experience is earning more than people with the same role but longer tenure.

Internal mobility on the other hand, can reduce voluntary turnover. The Conference Board surveyed employees who were considering leaving and found 29 percent of respondents indicated that they would stay if offered a promotion. Hiring internally also has the potential to reduce onboarding costs. References are easier to check, and any required background checks have already been completed. The candidate already knows the company culture and systems, so ramping up to proficiency takes less time (<https://bit.ly/3wJax81>). You also bypass the common phenomenon of new hires having higher attrition rates than established employees; there is much less reason to fear a “bad hire” or a “bad cultural fit” if the candidate has already been with the organization for a while.

Switching companies has a cost for both the company and the employee. The institutional knowledge an employee takes when they leave a company cannot easily be replicated. Employees who feel like they can’t get ahead in their current organization often look elsewhere (<https://bit.ly/3wzygbv>) and looking externally for senior positions can disincentivize top performers (<https://bit.ly/3wJax81>).

Promoting from within can also improve diversity within your mid-and-higher level leadership ranks. Research shows representa-

tion of people of color (both men and women) <https://bit.ly/386JGKW>, decreases as career levels rise. If this decrease is due to diverse employees resigning because they feel there are insufficient career growth opportunities, promoting from within can stop up this leaky pipeline of talent.

How our brain works against us

One of the psychological hang-ups that keep managers from looking for internal candidates in more depth is an outgrowth of ingroup bias—the black sheep effect. According to Dr. Amy C. Lewis, Associate Professor of Management at the College of Business at Texas A&M San Antonio, we sometimes are harsher on people we know well (such as members of our own group) because we know their flaws and know their flaws might reflect back on us. Everyone makes mistakes and everyone has flaws, but these are more obvious when the person is familiar. A manager who has worked with you for years remembers that time back in 2019 when you were late with a report, but the same manager won't know that about an external candidate because no candidate would put that on their resume.

“You have annual performance reviews, you know everything: the good, the bad and the ugly. So you see one flaw and you start looking for more and you start interpreting things a little more critically. Now, when you are looking at an external candidate, you are seeing everything through their self-presentation lens; they are doing impression management, because they're interviewing,” Dr. Lewis says.

Building growth and building skills

Showing that there's room for growth within the company can improve retention among the entire team. Employees at companies with high internal mobility stay nearly twice as long, (<https://bit.ly/3a9EXc1>), 5.4 years average versus an average 2.9 years for those with the least internal mobility. There's also research showing that internal candidates will become productive much faster than external ones.³

There are times when it makes sense to hire from outside the organization. A small company may start to feel too homogenous, and external candidates can provide fresh blood with new ideas to shake up a stagnant culture. High growth companies looking to expand their headcount will have to hire externally, as well

as organizations seeking skillsets not present in their existing workforce.

But even if your company knows that its headcount requirements necessitate external hiring, establishing a pipeline and having a growth mentality will serve your organization in the future. Investing in staff now will have a pay-off. Establishing a pattern of hiring internally can build a virtuous circle of skills development. By hiring interdepartmentally, you build teammates (<https://bit.ly/3agMRk2>) with a broader range of skills. This has multiple benefits for both the employee and the company. Broader skill sets provide the kind of agility companies need to adjust to a tumultuous business environment; Having employees with versatility also helps when setbacks require a company to downsize, or shift focus to other areas.

But to get to this point, leaders must ask themselves: Am I thriving or just surviving? If a leader's only goal is to avoid loss, they lose the opportunity to create something great. Building people's skills and developing employees' careers does not just make hiring internally more natural and easier, it builds deeper talents within the industry.

“We need to build up our talent so that the industry can rise. I hope I can have my people grow in place, but if they decide to go elsewhere, I am going to be poaching someone else's people too. And so that investment is not wasted. Sometimes managers are terrified to invest in somebody because they are afraid that if I help them get this certificate, they will just leave. But you are getting a better employee out of it,” Dr. Lewis says.

There is an adage that says if you train your people, they might leave, but if you don't train your people, they might stay. It's a manager's job (<https://bit.ly/3wJ9RiZ>) to make them want to stay, and building their career is part of that.

Overcome internal hiring biases

A way of getting around these biases is to make sure that more people are included in hiring decisions, including people who will be external to the team, such as HRBPs (Human Resource Business Partners). Some organizations already have this practice. For example, when a university hires a new dean, it is very normal to have a community member or an alum as part of the hiring. Someone who is not going to be a boss, or a direct report of the new hire will have a different perspective on the candidate. But you

Endnotes

¹ The Great Rehire: A data-driven approach to hiring smarter. April 2022, Visier Inc. Available at <https://hello.visier.com/hiring-report>.

² AC Lewis, SJ Sherman; The Journal of social psychology; 2010; Perceived entitativity and the black-sheep effect: when will we denigrate negative ingroup members? (<https://bit.ly/3MBwo85>)

³ Fanning, B. Hiring Externally Can Severely Damage Your Company, According to a Wharton Study. Inc.com, (<https://bit.ly/3PD8BGK>).

What Has the Recruiting Experience Been in the Past?

How many of these positions have we filled historically? Do we typically recruit internally or externally for this role?



Figure 2. Historical trends of internal versus external hiring will show if your organization has a pattern.

should always start with data, and there are several types of analyses that can be done to assess how the organization is typically hiring for certain roles.

Planning internal talent mobility - what can organizations do?

To determine if an organization tends to emphasize external over internal hiring strategies, people analytics technologies can provide a helpful glance at existing hiring patterns by role. The below chart shows an organization's recruiting patterns over the past 24 months (which can be filtered by role): How many requisitions have been filled, and the rate at which these roles were filled with external vs internal candidates.

Alternative analyses of historical sourcing paths can reveal hiring patterns for specific roles and if a business unit's hiring patterns are more oriented towards external or internal hires. As shown in the below example (Figure 3), an organization is looking to fill the role of an assistant plant manager, whereby there have been several career paths leading to this role. A quick analysis shows that potential candidates for this role previously were not only plant managers, but included maintenance engineers, plant supervisors, and logistics managers. This information can potentially widen the candidate pool for internal candidates and help hiring managers get an overview of a wide variety of skilled, existing internal candidates.

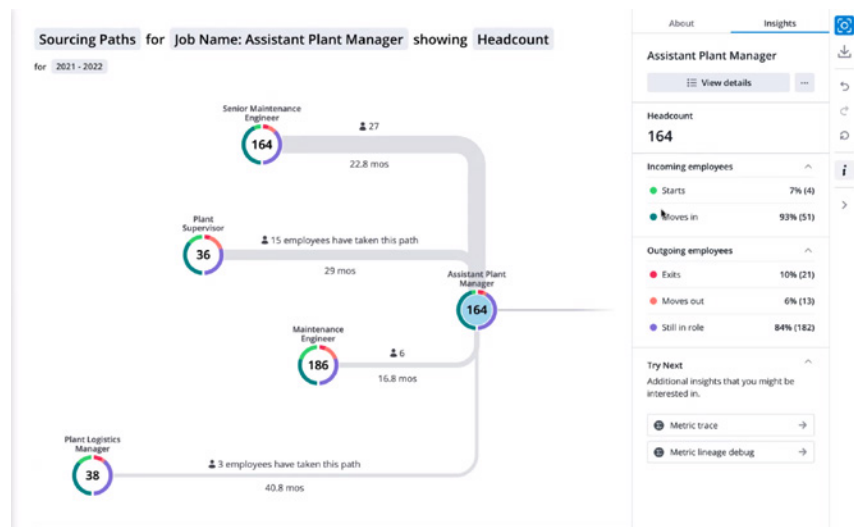


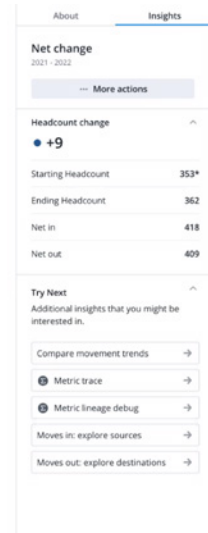
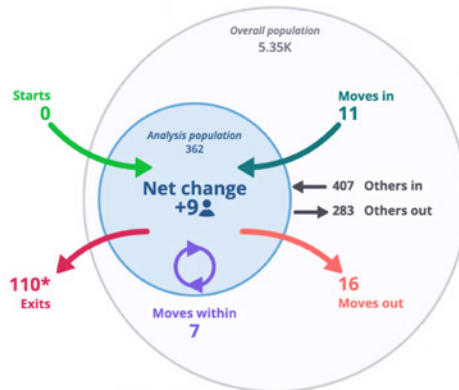
Figure 3. The Sourcing Paths tool shows which roles feed into the pipeline of potential candidates.

One of the most popular analyses of Visier users is the talent movement summary. As shown in the below chart, an analysis of talent moments can reveal how many employees move into and out of the organization, as well as within the company or business unit that has been selected.

This also helps detect the tendency of specific business units to keep or share talent across the company. Movement of high performing employees can often benefit both the organization (by helping retain those high performers), and the individual, by making them more well-rounded and promotable.

Movement Summary of Employee Movement showing Headcount

for 2021 - 2022 Organization Hierarchy: Customer Support High Performer + T \$...



Seeking to hire first internally before doing an external search simultaneously alleviates and helps prevent voluntary resignation. The best candidate for an unfilled role may be nearby. The right tools and the right mindset will help hiring managers find the right applicant by search among those already working for your organization.

About the Authors

Dr. Amy C. Lewis, Associate Dean of Business and Professor of Management, College of Business, Texas A&M University, San Antonio, earned her Ph.D. in social psychology from Indiana University and trained in organizational behavior as a postdoctoral research associate at the David Eccles School of Business at the University of Utah. Amy's research focuses on social identity, teams, and managerial cognition. She has been published in journals such as *Organizational Behavior and Human Decision Processes*, the *Journal of Personality and Social Psychology*, the *Journal of Social Psychology*, and the *Journal of Management Education*. She can be reached at aclewis@tamusa.edu.

Andrea Derler, Ph.D., the Principal, Research & Customer Value at Visier, Inc., is an organizational researcher and previously a human capital analyst. She has a background in management research, human science, and human capital consulting. At Visier, she leads research efforts and helps produce data-based, practice-oriented, and actionable insights for business and HR leaders. She can be reached at andrea.derler@visier.com.

Catherine "Kater" Cheek, senior copywriter at Visier, is an award-winning author with a breadth of writing experience from corporate communications to marketing to storytelling. She aims to highlight the human stories behind data and showcase details that make complicated concepts easy to understand. She can be reached at kater.cheek@visier.com.

Mike Everitt, Principal Solution Consultant, has spent the last 24 years working for various HR software companies including PeopleSoft, Oracle, and now Visier, Inc. He started his career educating customers, before moving into solution consulting. Mike advises companies across industries on HR software purchases and deployment, focusing on People Analytics, where he helps organizations understand the benefits and impact it can have on business and talent. He can be reached at mike.everitt@visier.com.