Transfer, Promote, or Hire? It Depends on whether you Need Performance Soon

By Henrich Greve

A while ago I saw that Wall Street Journal reported an increase in formal programs for lateral transfers in US corporations, including majors such as Intel. The description of these programs looked sufficiently similar to the job rotation of Japanese firms that I started wondering whether employment practices somehow swam across the Pacific when no one was looking: US firms are starting job rotation just as Japanese firms are starting outside hiring.

Of course, job rotation is just a formal way to do lateral moves of employees (and the programs in the article were actually short term visits), so maybe nothing has changed much. It is still interesting to speculate who would have gained from such a swap of employment practices.

A recent article in Administrative Science Quarterly gives clear answers. In it, Matthew Bidwell compares the cost and performance of outside hires, inside promotions, and lateral transfers, finding that the outside hiring is the most expensive and least productive option. Well, in the short term it is less productive, because outside hires caught up with the performance of inside movers after approximately three years. The performance findings make perfect sense because outsiders know less about the firm than insiders do, and need some time to function well. Hiring from the outside is an investment where you pay first and get returns later.

But things stopped making sense when he looked at salaries and promotions. The outside hires were paid substantially more from the first year on (18 percent more) and were also promoted faster. If the salary reflects how the firm judged their value relative to their current employees, they were significantly over-valued. The apparent over-evaluation continued after they had worked in the firm, because they also got promoted faster than their internal peers. Oh, and it appears that the external hires agreed with the assessment that they were a better value for money, because they were also more likely to leave the firm, presumably in search of the next firm to offer them a better deal than what its current employees get.

That, of course, is the final piece of information that should make managers think very seriously about the balance between inside mobility and outside hires. It would be possible for internal hires to be over-valued at the start and still work out as an investment if their actual performance were discovered over time, and if they stayed long enough that the investment paid off. A firm that cannot do this is simply using the outside hire option poorly. So if you are going to hire many from the outside like a US firm does, at least retain them for a long time like a Japanese firm does.

References

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Bidwell, M. 2011. Paying More to Get Less. Administrative Science Quarterly 56(3) 369-407.

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