

Internal Labor Markets or Designations?

Research appearing in the *Administrative Science Quarterly* compares competitive processes versus managerial designation as mechanisms for internally filling job openings. Internal hiring can have performance and cost benefits and this paper examines two potential approaches: Posting, a market base approach where jobs are posted and all are encouraged to apply, and Slotting, a primarily relational process where managers personally identify preferred candidates.

Key Takeaways:

- Internal hires who enter the job through a competitive process perform better than internal hires who receive the job primarily through managerial relationships.
- Internal hires who enter the job through a competitive process are less likely to exit the firm than internal hires who receive the job primarily through managerial relationships
- Internal hires who enter the job through a competitive process earn more than internal hires who receive the job primarily through managerial relationships.

Using personnel records on a Fortune 100 health-services company with operations in all 50 U.S. states, the author examined 8,107 internal hiring situations for 450 different job types. This included examining the 350,000 applications for the relevant hiring situations, and conducting interviews with managers, candidates, and HR personnel. During the years 2008 – 2012, the researcher found that internal employees who

filled job vacancies were more likely to perform better, remain with the firm longer, and receive higher pay if they filled the job through posting (or competitive) processes than if they filled the job through slotting (or relationship) processes.

The difference between the two processes largely resulted from the greater pools (both talent and quality) of candidates and a stronger managerial adherence to systematically using relevant information for making decisions that occurred when posting occurred compared with situations where positions were filled through slotting.

The analysis statistically controlled for aspects of the job (like the type of job, hierarchal rank, and location), the type of transition (like whether the move was within the same function, and prior salary), and the individual (like tenure, age, gender, and minority status). The author suggests that future research is needed to explore when managers choose to use these different types of internal hiring.

Source: Keller, JR., (2018). Posting and slotting: How hiring processes shape the quality of hire and compensation in internal labor markets. *Administrative Science Quarterly*, In Press.