

How internal job candidates could have a leg up

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When a new role opens up at a company, managers often face a choice: Promote an employee from within or bring an external candidate on board.

Employees may worry that a more qualified outside candidate will get the job. But new research from Texas McCombs finds that internal candidates are more likely to be promoted if they fulfill one condition: Work harder.

The research is published in the *Journal of Accounting Research*.

Assistant Accounting Professor Eric Chan found that before a hiring decision, employees will exert more effort to increase their chances of [promotion](#)—especially right before the decision. Managers are more likely to promote them than to hire highly skilled external candidates.

"It's this idea of gift exchange," says Chan. "We find that workers work harder before the hiring decision as they try to influence the manager in their favor. In exchange, the manager rewards them with a promotion."

Their extra exertions endure, the study found, even after a promotion has gone through, and the worker gets no short-term [economic benefits](#) from continuing to put in more effort.

The reason is to thank the manager for the opportunity through their actions, Chan says. "This gift exchange continues."

Higher effort before hiring

To study what drives managers' decisions and employees' behavior around filling job openings, Chan ran an experiment in collaboration with Jeremy Lill of the University of Kansas and Victor Maas of the University of Amsterdam.

They recruited 138 business school students to play the parts of managers and employees during six work periods: three before a hiring decision and three after. For each period, employees earned a fixed wage in points that was converted into actual money at the end of the experiment.

For every period, employees chose what level of extra effort to put in, from 0% to 100%. That effort in practice can represent working

overtime, taking on additional projects, or voluntarily helping colleagues.

Raising their efforts more than 20% would cost them points—but might boost their chances of promotion. Any extra effort benefits the managers by increasing their profit points. At the end of each period, a manager learned the amounts of employees' efforts.

After three periods, the manager decided whether to promote or hire from outside. The study found a strong correlation between effort and promotion:

- Overall [employee](#) efforts increased up to 51%, peaking right before a hiring decision.
- Managers promoted employees internally 54% of the time.
- Average effort was 18% higher for employees who got promoted.
- Even after a promotion decision was made, employees' effort levels declined only 8%.
- When the researchers introduced statistical noise to make employees' effort levels harder to pinpoint, managers were still 26% more likely to hire internally.

"Managers see employees' past effort as a gift that should be reciprocated," Chan says.

Gifts that keep giving

Would different methods for measuring employee performance affect managers' decisions? To find out, the researchers tested two systems. Some managers learned employees' precise effort levels. For others, statistical noise got added, making efforts harder to pinpoint.

Managers were more likely to promote internally when measurements

were less precise, the researchers found: by a margin of 26%.

"When managers don't quite know if workers gave high effort or low effort, they give workers the benefit of the doubt," Chan says. "Let me promote you anyway to show my trust in you."

Even after a promotion decision was made, he found employees continued putting in extra efforts. Their levels declined only 8%.

That indicates that managers reap some benefits from promoting internally, he adds. "The employee continues to work hard, so the manager gets a little extra that way."

The 'black box' of hiring decisions

The research has implications for employees and managers alike. For workers who hope to get promoted, "it's useful to understand how firms and their managers make promotion and hire decisions," Chan says.

Managers should be aware of their biases toward promoting employees when they're choosing between an internal candidate and an external one, he cautions.

"In the case of a system that captures employees' effort imprecisely, you might be promoting someone who may not be as hardworking as you assume, and they therefore may not fit that higher-level role as well," says Chan.

On the positive side, managers can rest assured that if they do promote hardworking employees, the employees won't dial down their efforts afterward.

Such research can help both sides understand what drives [managers'](#)

promotion and hiring decisions and how employees react to them, Chan says.

"Managers can be reluctant to be transparent about their promotion criteria, to retain control and discretion over the decision," he says. "For many [employees](#), the criteria for promotion remain a black box. But further research can help us peer inside."

More information: Eric W. Chan et al, Promote Internally or Hire Externally? The Role of Gift Exchange and Performance Measurement Precision, *Journal of Accounting Research* (2023). [DOI: 10.1111/1475-679X.12475](#)

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