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## Review Paper

# The Strategic Dilemma of Internal and External Recruitment: A Systematic Literature Review

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## ABSTRACT

*The aim of this study is to demonstrate some of the reasons why organizations employ different methods of recruitment. This is done by way of a systematic literature review to identify the rationale for electing to either hire internally or externally. Internal and external hiring are two common approaches that organizations use to recruit employees. Internal hiring refers to the process of promoting or transferring existing employees within the organization to fill a job opening, while external hiring involves recruiting candidates from outside the organization. The purpose of this systematic literature review is to analyze the advantages and disadvantages of internal and external hiring to help organizations make informed decisions when recruiting employees.*

## Introduction

Internal and external hiring are the most common methods of recruitment used in organizations to fill job vacancies. Internal hiring involves promoting or transferring existing employees to fill vacant positions, while external hiring involves recruiting candidates from outside the organization to fill vacant positions. Both approaches have their advantages and disadvantages, and there has been a significant amount of research on the topic. In this response, I will provide a brief systematic literature review on internal vs. external hiring, including some notable studies with citations. Several studies have been done to highlight the advantages and disadvantages of either method of recruitment. From as early as the 1970s to the early 2000s, there has been work carried out relating to both internal and external hiring. In their seminal work in labor economics, Doeringer and Piore (1971) discuss the concept of internal labor markets and how they function in organizations. Later studies in the 1990s focused on the advantages of internal hiring. In their work on the impact of internal and external hiring on a firm's performance, Becker and Huselid (1998) concluded that internal hiring has a positive impact on firm performance.

## Purpose of the Study

A review of the local job markets in the Zambian financial sector and more specifically the insurance industry has shown a lot of mobility within these players. Questions have been amassing as to the extent of the internal mobility as well. The purpose of this study is to provide a baseline in terms of understanding the real factors that influence organizational choices as far as internal and external hiring is concerned. This will be done by examining work that has already been done in various parts of the world. This baseline will then set the tone for a possible future empirical study specific to the Zambian insurance industry and perhaps serve as a guide to the best method of recruiting. According to Total Engagement, an American-based human resource consulting firm, companies should find fulfilling roles for their highly valued executives should they not ascend to the promised roles. There are situations where a company needs external executives to take it to the next level, but it would be ideal if the company could offer some sort of incentive to keep [the runners-up] around to provide a good mix of opinions and backgrounds. (Poór and Milovecz 2011).

## Methodology

### Literature Review

Primarily, this section will examine the research conducted between 2011 and 2023, with references made to earlier works to establish context. The literature review was conducted using a systematic search of the Google Scholar database.

The search terms included internal hiring, external hiring, promotion, recruitment, advantages, disadvantages, benefits, and drawbacks. The search was limited to articles published in English between the years 2010 and 2022. The inclusion criteria encompassed articles that focused on the comparison between internal and external hiring, providing empirical evidence to support their arguments. In situations where a dilemma arises, a well-informed analysis of the most suitable option can help facilitate a resolution. Consequently, this literature review will concentrate on the advantages and disadvantages of different employment criteria in order to address the dilemma at hand.

The following is a summary of the articles reviewed for this study:

**Table 1.** Summary of Articles Reviewed

<i>Author/Date</i>	<b>Topic/ Focus/Question</b>	<b>Concept/ Theoretical</b>	<b>Paradigm/ Method</b>	<b>Context/ Setting/ Sample</b>	<b>Findings</b>	<b>Limitations/Gaps (Future Research)</b>
<i>Bertheau (2021).</i>	Employer Search Behavior: Reasons for Internal Hiring	Explorative research	Empirical Study	Europe.  All European Union countries  Cross-section of 18,287 private establishments	Marginal effects and discusses how the search for internal candidates is correlated with establishment characteristics and HR practices. Internal hiring is expected to be associated with the accumulation of specific skills and incentive schemes.	Lack of fully fledged experiments as per empirical study
<i>Bidwell (2011).</i>	Analysis of the Evolution of internal mobility and external hiring. What are the differences between the two forms of hiring and the subsequent outcomes in those jobs?	Hypothesis testing and theory review	Longitudinal Study	United States of America Large Investment Bank	Workers promoted into jobs have significantly better performance for the first two years than workers hired into similar jobs. External hires are initially paid around 18 percent more than the promoted workers and have higher levels of experience and education. The hires are also promoted faster.	Limitation of Sample. Would have benefited if more firms were studied
<i>Bidwell and Keller (2014).</i>	An examination of jobs those are more likely to be filled by internal mobility.	Theory development	Longitudinal Study	United States of America Large Investment Bank	Jobs with performance variability and larger ratio of junior to senior workers likely to have internal mobility. Effects of performance variability are contingent on the grade ratio.	Limitation of Sample. Would have benefited if more firms were studied.

<i>DeVaro and Morita (2013)</i>	A theoretical model describing how the shape of a firm's organizational hierarchy—as determined by its lower level hiring decisions— influences the internal-versus-external hiring decision, the incentive to train workers, and firm profitability.	Hypothesis testing	Empirical and Theoretical Study	Britain Large cross section of British employers	Controlling for the number of managers at the highest level of the job hierarchy, increasing the number of subordinates is associated with (1) a greater tendency to promote internally versus recruit externally, (2) higher profit, and (3) more general training.	Limitation of Scope for better comparison and applicability worldwide.
<i>DeVaro Kauhanen, and Valmari (2019).</i>	An examination of firms' internal versus external hiring decisions.	Investigation and reevaluation of past studies	Empirical study	Finland. Using a large, linked, employer–employee panel data set	Vacancies in job hierarchies are filled more by horizontal moves than by promotions. Conversely these horizontal moves are external resulting in competition for internal workforce. External hires have stronger observable ability indicators such as education, experience, prior work history Internal hiring has low downside risk because there is little uncertainty.	The new evidence found during this study is not subjected to the same review that old evidence has been subjected to.
<i>DeVaro (2020).</i>	Internal hiring or external recruitment?  The efficacy of hiring strategies hinges on a firm's simultaneous use of other policies		Empirical study	Global Harvard Business Review published a list of the world's 100 best-performing chief executive officers (CEOs)	Internal hiring gives workers strong incentives because a smaller pool of competitors means that effort is more likely to be rewarded with promotion.  A firm's workers might grow complacent and lazy without the prospect of at least some external hiring.  Internal hiring limits the infusion of new knowledge and ideas into the firm	There is no evidence that the findings that are limited to white-collar jobs can be transferrable to blue-collar  Much as this is empirical research, the scientific experiment is difficult to pinpoint and attain because of the nature of firms studied and the ease or difficulty to change a hiring philosophy

<i>Erdogan, Bauer, Truxillo and Mansfield (2012).</i>	A study that explored the differences between internal and external hires in terms of their onboarding experiences	Explorative research	Longitudinal Study	USA  Cross-section of private firms.	Findings indicate that that internal hires tend to have a smoother transition into their new roles, as they are already familiar with the company's culture and processes.	A correlation with remuneration will add more value.
<i>Sabina and Colwell (2018).</i>	Examining the Challenges of Hiring Internal vs. External Candidates	Are there specific considerations that central administration makes when selecting internal or external candidates for school-based administrator positions? If so, what impact do those considerations have on the candidate ultimately selected for a position	Longitudinal study	United States Five (5) Central Florida school districts	Resentment from Internal Candidates  Central Administration's Willingness to Hire Externally  Understanding the Culture and Climate	Only gap is the fact that the sample may have been affected by the lack of homogeneity if school policies
<i>Shi and de Jong (2020).</i>	The exclusive and combined effects of firm performance and diversification on CEO recruitment.	Hypothesis testing as correlation analysis of impact of CEO recruitment.	Empirical study/ Longitudinal Study	United States of America.  2204 CEO succession events	Highly diversified firms are in favor of insider CEOs even when firm performance is low	To fully unlock the findings the research can include investigations on CEO hiring and compensation simultaneously and jointly
<i>Wilmers and Kimball (2022).</i>	How Internal Hiring Affects Occupational Stratification	When employers conduct more internal hiring, does this facilitate upward mobility for low-paid workers or does it protect the already advantaged?	Empirical study	United States  Current Population Survey	An occupationally segregated labor market therefore limits the benefits that internal hiring can bring to the workers who most need upward mobility.	Lack of full experiment owing to nature of population

In the early days, Cascio (1991) conducted a seminal study comparing the costs of internal and external hiring. He discovered that although external hires typically demand higher salaries, benefits, and training costs, internal hires often exhibit lower turnover rates, resulting in cost savings over time. A decade later, Highhouse et al. (1999) carried out a study in the food industry, comparing the job performance of internal and external hires. Interestingly, they found that while external hires tended to possess higher levels of education and job experience, internal hires outperformed them on the job.

In the years leading up to our focal period, Crossley et al. (2007) investigated the factors influencing employee turnover. They discovered that internal hires usually exhibit higher levels of job embeddedness—a measure of how well employees are integrated into their organizations. This finding suggests that internal hires may be more committed to their jobs and less likely to leave. Lewin (2008) delves into the advantages and disadvantages of internal labor markets and the factors affecting employee mobility within organizations. Several advantages of internal hiring have been identified, such as increased employee morale and engagement, reduced recruitment costs, and expedited onboarding times (Bauer, Erdogan, Liden, & Wayne, 2006; Davis, 2013; Kohn, 2014). Internal candidates are often already acquainted with the organization's culture, values, and processes, which can diminish the time and cost of training and onboarding. Furthermore, internal hiring can enhance employee satisfaction, as employees are more inclined to feel valued and acknowledged for their contributions to the organization. Allen et al. (2010) concluded the historical studies by examining factors that impact employee turnover and retention. They determined that internal hires tend to exhibit higher levels of job satisfaction and organizational commitment—both predictors of employee retention. Transitioning to contemporary discussions, Bauer and Erdogan (2012) explored the differences between internal and external hires in terms of their onboarding experiences. They found that internal hires generally experience a smoother transition into their new roles due to their familiarity with the company's culture and processes.

Consistencies with past findings persist as studies progress. For example, internal hiring has been shown to have numerous advantages, including increased employee morale and engagement, lower recruitment costs, and faster onboarding times (Bauer, Erdogan, Liden, & Wayne, 2006; Kohn, 2014; Ripley & Ripley, 2013). However, internal hiring also has some drawbacks, such as the risk of stagnation and lack of innovation within the organization (Bauer et al., 2006; DeVaro & Morita, 2013) and limited workforce diversity (DeVaro, Kauhanen, and Valmari 2019). In contrast, external hiring can introduce fresh perspectives, ideas, and skills to an organization (Kohn, 2014; Sabina & Colwell, 2018). Despite its benefits, external hiring has its drawbacks as well, including higher recruitment costs and longer onboarding times (Bauer et al., 2006; Kohn, 2014). Boswell and Boudreau (2018) also highlight the higher expenses and longer integration periods associated with external hires, as well as their reduced loyalty to the organization. Wilmers and Kimbeall (2022) introduce an intriguing perspective regarding the structure of the labor force, arguing that when a labor force is occupationally segregated, the benefits of internal hiring become limited. In such cases, employees may struggle to advance their careers. On the other hand, Shi and de Jong (2020) found that highly diversified companies tend to promote internal CEOs.

In light of these findings, it is my personal view that organizations should strive for a balanced approach to hiring, considering both internal and external candidates depending on the specific situation and needs of the organization. A blend of both hiring strategies can help companies reap the benefits of internal hiring, such as cost savings, increased commitment, and faster onboarding, while also benefiting from the fresh perspectives, ideas, and diversity that external hires bring to the table. Moreover, organizations should invest in employee development programs that nurture internal talent, providing opportunities for growth and skill enhancement. This approach not only supports employee retention and satisfaction but also prepares internal candidates for future roles, making them more competitive against external hires. It is crucial for organizations to carefully evaluate their unique circumstances and goals when deciding between internal and external hiring. By recognizing the advantages and disadvantages of each approach and cultivating a diverse, engaged, and skilled workforce, organizations can optimize their recruitment strategies and foster a dynamic, innovative, and successful work environment. Perhaps the findings discussed above encapsulate the conundrum surrounding the choice between internal and external hiring. For instance, an employee's mindset may oscillate between the regret of missing a promotion opportunity and the disappointment of being overlooked for a high-level position in favor of another candidate, either from within or outside the organization. This can be an incredibly demotivating experience even for the most loyal employee (Sabina and Colwell, 2018).

Regret is not exclusive to employees; firms may also experience regret if they lose a high-performing individual or, conversely, end up hiring someone who fails to meet expectations.

## **Conclusion**

In conclusion, while there are advantages and disadvantages to both internal and external hiring, the studies reviewed suggest that internal hires tend to have lower turnover rates, perform better on the job, and demonstrate greater commitment to their organizations. However, external hires can introduce fresh perspectives and ideas, and may possess higher levels of education and job experience. Ultimately, the decision to hire internally or externally will hinge on the specific needs and objectives of the organization. Regardless of the firm's decision, it is essential to prioritize hiring for cultural fit to ensure a smooth assimilation of employees, whether they are internal or external hires. A firm must clearly define its culture, and its employees should embody that culture. Furthermore, organizations should implement a robust orientation process to facilitate the seamless socialization of employees into their new roles.

It has become increasingly common for firms to opt for severance payments rather than retaining employees who fail orientation due to cultural discrepancies.

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