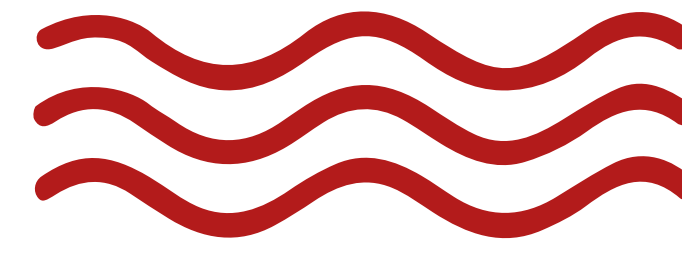# CAHRS ResearchBrief
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When do Losers Become Leavers?
Rejection and Turnover in
Internal Talent Markets

Internal talent markets (ITMs) are making a comeback thanks to tight external labor markets and the well-documented shortcomings of the "fire and hire" approach to staffing. While specifics vary, ITMs share three common characteristics: the internal posting of vacant positions, proactive measures urging employees to apply for available spots, and extensive screening procedures to winnow applicant pools down those most qualified for the jobs at hand. Studies show that, in contrast to less open internal staffing procedures, ITMs consistently produce superior hires who are more likely to remain with their firms, be more productive in their new jobs, and receive additional promotions later on.

But ITMs have an inherent drawback: Each time they produce a "winner", they simultaneously generate a number of "losers"; that is, a group of employees who applied for an available position but didn't get it. Surprisingly, we know very little about how employees react to these rejections. This study aimed to correct this situation by analyzing data pertaining to 5,769 employees who lost out in one or more ITM competitions within a large U.S. based health services firm (hereafter HealthCo) between 2013 and 2017.

At HealthCo, 10% of the unsuccessful applicants voluntarily left the company within six months following their rejections (the firm's overall turnover rate during the study period was just 4%). The "losers" who left the company differed from those who stayed in three ways. First, they were more confident of success since they made seemingly "safe bets" by applying for positions that had commonly gone to others in jobs like theirs. Second, they were rejected relatively early in the process rather than at the final stage (i.e., they were turned down after initial screenings and interviews with HR specialists without making it through to interviews with hiring managers). Third, they lost out to candidates they thought were less qualified and/or candidates from other firms.

As these results show, ITMs provide employees with real-time and direct information about their career prospects, information that they, in turn, use to make important employment-related decisions. It therefore behooves firms to manage the messages their ITMs convey to employees from beginning to end.

Initially, it is critical to calibrate employees' expectations. In part, this is a matter of clarifying how the process works: its purpose, the steps involved, the decision-making process, and so forth. Another important dimension, however, involves the accuracy of the career information that is available to employees. At HealthCo, many employees used past patterns of movement to decide which jobs to apply for. When these traditional movements turned out to be poor predictors of success, they felt betrayed and uncertain about their futures and, thus, were particularly prone to quitting. In retrospect, this isn't surprising. In today's rapidly changing world, history is seldom a solid guide to future prospects. Increasingly, then, leading-edge firms are turning to competency-based career pathing, an approach that employs data analytics and machine learning to project career lattices – broad panoplies of career possibilities – primarily based on skill adjacencies among current, as well as emerging jobs.

As applicants move through the ITM process, the locus of decision-making requires special scrutiny. At HealthCo, rejection during the earlier stages of the process went down particularly hard, most likely because applicants felt short-changed. Of course, it is impractical for large organizations to push all applicants through to interviews with hiring managers. Nonetheless, HeathCo's experience suggests that it pays to make special efforts in this respect especially for solid performers the organization wants to keep on the payroll. While this takes time, it is undoubtedly time well spent. The act itself conveys a strong signal to valuable employees that the organization truly appreciates their contributions and cares about their careers and, at a more personal level, it gives hiring managers a chance to reinforce this message during the interviews.

At the end of each hiring episode, at whatever stage it occurs, rejected applicants need to know why they were passed over and what, if anything, they can do to improve their chances next time around. HealthCo's experience demonstrates just how important this is, especially when employees lose out to applicants whose superior qualifications are less than obvious (e.g., when they have less seniority or come from different units). No doubt, the adoption of competency-based career lattices will make these discussions easier to have as time goes on.

Finally, it is worth noting that rejected employees find it particularly galling when they lose out to candidates from outside the organization. In situations where there are only minor differences between insiders and outsiders, therefore, it make sense to give the nod to the insiders as a means of cutting down on unwanted turnover. As a plus, recent studies show that internal hires routinely outperform outside hires, even when the latter have observably superior credentials.

All studies are subject to limitations, In this case, the results emanate from a single company so it is unclear to what extent they might generalize to other organizations. But this limitation presents an opportunity as well. CAHRS actively encourages those who are considering a new ITM – or the revamping of an existing one – to get in touch with the researcher noted here. They are well-versed on this topic and always happy to provide useful advice and, especially, to get involved in additional studies that will help guide future efforts in this domain.

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