Fall 2019

When to "Make" and When to "Buy": A Contingency Theory of Making Versus Buying Managerial Human Capital

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A Contingency Theory of Making versus Buying Managerial Human Capital

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Submitted in Partial Fulfillment of the Requirements

For the Degree of Doctor of Philosophy in

Business Administration

Darla Moore School of Business

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2019

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ABSTRACT

When should firms build talent, and when should they buy? There is theoretical consensus that internal hires would exceed externals in performance because of their firm-specific human capital. However, by integrating the creativity and innovation literature, I present a non-traditional theoretical view which argues that in creative environments with a time-lag on related expectations and outputs, externally hired managers would exceed internally promoted managers in several different performance-related outcomes. I also explore the social influence associated with the hiring origin of middle managers by integrating psychology and economic rationale to study the impact of managerial hiring origin decisions on subordinates. These questions are addressed using three years of survey data from a publicly-traded company with employees spanning various locations, job levels, departments, and functions.

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GENERAL INTRODUCTION

Hiring decisions are one of the most important and costliest choices that organizations regularly make to determine human capital inputs (Bidwell, 2011; Ployhart, 2004; Ployhart, 2006). For decades, organizational scholars have debated the consequences of a fundamental human capital hiring decision well-known as the “make vs. buy” decision (Carter & Hodgson, 2006; Mahoney, 2005). To “make” is the decision to invest in the development of skills and capabilities of existing employees, giving them opportunities to rise across firm ranks by granting them job promotions (internally promoted employees). To “buy” is the decision to invest in acquiring external, “ready-to-go” employees with no prior experience working in the hiring firm (external hires), but who can fill organizational needs instantly. Because they possess firm-specific human capital, internally promoted employees were found to exceed external hires in performance initially, while being paid less (Bidwell, 2011; DeOrtentiis, Van Iddekinge, Ployhart, & Heetderks, 2018). However, many firms are currently promoting from within and hiring from outside the firm to fill job positions simultaneously (Bidwelll and Mollick, 2015; Groysberg, 2010), while also employing external hires into jobs requiring firm-specific skills (Keller & Bidwell, 2015). Therefore, it is important to understand the conditions under which one origin of hiring is more effective than the other. This paper contributes to shifting the scholarly focus from whether or not firms should choose one origin of hiring over another, to understanding when firms should make certain decisions about the origin of the new hire to gain better outcomes.

Much of the empirical research on internal and external hiring simply documents their relative prevalence, describes how observable characteristics differ between internally promoted employees and external hires, and identifies the types of firms that tend to rely on one mode or another. I advance a novel theoretical perspective by suggesting that three key issues have yet to be considered when attempting to understand the effects of hiring decisions. The first issue concerns how the nature of the outcome measured (affective, behavioral, and performance) alters the beneficial influence of the origin of hired employees. The second analyzes how the task type can alter the relationship between hiring origin and outcomes. The third issue concerns the social influence of such hiring decisions, or how the origin of hired employees influences other employees in the unit. Chapter 2 focuses on the hired employee's outcomes, while chapter 2 focuses on the influence of the hiring decision on other employees in the unit.

CHAPTER 1: CONSEQUENCES OF MAKING VERSUS BUYING MANAGERIAL HUMAN CAPITAL IN CREATIVE ENVIRONMENTS

1.1. INTRODUCTION

Despite some progress, the current literature falls short of depicting the practical complexity of organizational settings when studying the benefits of externally hired versus internally promoted middle managers (Bidwell, 2011; DeOrtentiis et al., 2018; Groysberg, 2010). My theory highlights the complex nature of these hiring decisions by integrating psychology and economic rationale to propose key contingencies that help answer: When should firms hire external middle managers versus promote internal middle managers to achieve beneficial outcomes?

Middle managers are central to influencing organizational outcomes (Ashford, 1993; Balogun & Johnson, 2004; DeOrtentiis et al., 2018). They serve as a key implementer of the firm's strategy (Wright & Nishi, 2012; Wright & Snell, 1998), a direct influencer of subordinate attitudes and behaviors (Harter, Schmidt, & Hayes, 2002), and a strategic link between otherwise disconnected stakeholders, such as different units and different organizational levels (Balogun & Johnson, 2004; Floyd & Wooldridge, 1997). As a result, the "make vs. buy" decision at the managerial level is a critical one. However, research in general has tended to focus more on the executive level when studying the consequences of hiring decisions. Therefore, this chapter focuses on studying the consequences of the hiring decision of middle managers.

First, I present a contingent view of managerial hiring decisions, with the goal of understanding how internally promoted mangers and externally hired managers differ when looking at various types of outcomes (affective, behavioral, and performance outcomes). Most of the past research has focused on subjective performance outcomes of the hired individual. However, I investigate different important outcomes, such as leadership behavior and engagement, which have been linked to higher order outcomes that performance might not explicitly capture.

Second, I integrate the creativity and innovation literature to study the influence of task type in altering the relationship between managerial origin and outcomes. Previous research has focused on settings with low knowledge intensive demands and more structured features with high turnover, as opposed to knowledge-intensive or creative jobs that require a different skillset. Therefore, even though internal hires are documented to have superior (initial) productivity than external hires, I argue that firms will benefit from hiring external individuals if the function involves creativity. Creative functions require more general criteria when evaluating outcomes and performance. This in turn requires individuals to have generic human capital for success, and firm-specific human capital would only be beneficial if the performance criteria are related to the job in the specific firm.

This manuscript contributes to literature in three ways. First, I advance the "make vs. buy" scholarly conversation by integrating the creativity and innovation literature to better understand when to make versus buy managerial human capital. As firms are both hiring from within and outside the firm simultaneously (Bidwell & Keller, 2014; Groysberg, 2010), I help shift the scholarly focus from whether or not firms should choose one origin of hiring versus another, to a better understanding of *when* firms should use each origin of hiring to gain beneficial outcomes. Second, I use survey data to study the impact of the different hiring sources on a variety of outcomes. I am able to capture ratings of performance, leadership behaviors, as well as engagement of the hired employees, whereas previous studies have only looked at individual subjective performance outcomes (e.g. Bidwell, 2011; DeOrtentiis et al., 2018). Yet an analysis of engagement allows us to uncover the causal mechanisms that can influence performance by understanding why performance is affected. I further theorize that the outcome of interest is an important factor when studying managerial origin, as I investigate leadership behaviors and performance to argue that an analysis of performance alone might not tell a complete story. Third, the field sample is unique as it allows us to test the influence of managerial origin in varying tasks, including tasks that have creativity as a performance criterion. While past studies have looked at the financial and service retail industries, which are more structured and require less knowledge intensity, I theorize and test whether the benefits of the managerial origin are contingent upon the type of task at hand. Practically, this study contributes to managerial decisions in that it sheds light on how decision-makers can best position the right people in the right places. Specifically, understanding how to strategically select managers can have positive outcomes. I address these questions by using three years of survey data from a publically traded company.

1.2. LITERATURE REVIEW

1.2.1. Hiring Decisions

As with any capital investment, the management of human capital can often be broken down into "make vs. buy" decisions (Miles and Snow, 1984). That is, to fill in lateral job vacancies, organizations have a choice of hiring either existing workers for the job (internal promotion) or people from the external labor market without past experience working within the hiring firm (external hire). External hiring and internal promotions are not always considered simultaneously and occur through different processes. For example, a firm may choose to hire a worker from the external market because he/she is an attractive candidate that is available for hire at the time (Granovetter, 1974; Rosenbaum, 1990). On the other hand, a firm many choose to promote a current worker who is believed to have achieved a certain skill level that qualifies him/her to excel in the new position.

Brief History. Cappelli and Keller (2017) presented a historic review of how organizations have staffed jobs throughout time. Around the 1950s, models of organizational staffing were based on internal labor market theory (Doeringer and Piore, 1971; 1985), an approach that emphasized developing, promoting, and transferring existing employees along and across job ladders within the organization (DiPrete, 1987; Stewman & Konda, 1983; Stewman & Yeh, 1991). In other words, organizations planned a career for their employees within the firm. If external hiring were considered at all, it was implemented for lower-level jobs (Stewman, 1986). A classic example of this internal labor market approach is the technology firm Hewlett Packard, within which past employees first filled low-level positions and gradually moved up the ladder within the firm. However, in the 1980s, firms experienced a dynamic competitive environment clouded with the uncertainty of employment demand and supply. In response, there was a noted decline in the traditional, internally focused staffing models, as external hires began to fill vacant jobs at all levels (Cappelli, 2008). Today, a hybrid model of organizational staffing exists, wherein both the external and internal labor markets are in play.

Internal Promotions. Internal hiring occurs through job promotions which grant existing employees an upward move and higher-paying positions within an organization, usually indicated formally by a change in compensation grade level (Bidwell, 2011; Campion, Cheraskin, & Stevens, 1994; DiPrete & Soule, 1988; Doeringer & Piore, 1971; Gerhart, 2017; Markham, Harlan, & Hackett, 1987). While the definition of job promotion varies slightly in literature, the agreed-upon conditions that comprise a job promotion are an offer of a higher-level position in the organizational hierarchy and a promise of higher pay. These conditions are also agreed-upon practically, as a World at Work survey of 541 member companies reported that higher-level responsibilities/jobs (80%) and an increase in pay grade, band, or level (80%) are the top two criteria when defining employee promotion (WorldatWork, 2016). Individual performance, as reflected in performance ratings, are the primary determinant of job promotions in most organizations (Gerhart & Milkovich, 1989; Rosenbaum, 1984). For example, Gerhart and Milkovich (1989); Rosenbaum, 1984). For example, Gerhart and Milkovich (1989) reported that employees scoring one point above the mean on a four-point performance scale received 48% more promotions over a six-year period when compared with those who scored at the performance mean. Although some firms grant job promotions when they need to fill a position vacancy (Stewman and Konda, 1983; White, 1970), others grant promotions when individuals are judged to have the skills needed for the higher rank, regardless of a position vacancy (Barnett and Miner, 1992; Stewman and Yeh, 1991).

Slichter (1919) first recommended that job vacancies be filled through internal promotion because such promotions motivate workers with the hope of promotion, reduce the likelihood of turnover, and help recruit better-fitting employees. In time, internal promotions have been further identified as a high-performance work practice that has been shown to relate to firm level outcomes (Delery & Shaw, 2001; Huselid, 1995). In a meta-analysis about HPWPs, Combs, Liu, Hall, and Ketchen (2006) analyzed 12 studies that used internal promotions and found a .15 correlation with performance measures. Posthuma et al.'s 2013 comprehensive review of high-performance work practices (HPWP) recorded 107 studies under the subheading "promotions," and of those, the majority were concerned with promotions from within.

There are also costs to hiring internal candidates, which costs have been highlighted in literature. First, because organizations have a continuing relationship with passed-over employees, or qualified employees who were not selected for the job promotion, the numbers of which usually surpass the number of promoted employees, inequity perception will likely trigger negative feelings and behaviors. Literature has shown that passed-over employees often become dissatisfied and turn away from the organization (Spector & Fox, 2010), become envious (Schaubroeck and Lam, 2004), and exemplify counterproductive work behaviors (Lam and Schaubroeck, 2000). Such deviant behaviors can, in turn, affect the hired person's performance and neutralize the motivational effect intended by the firm. There is also evidence that the number of complaints and grievances related to promotions becomes significantly higher after a promotion event (Allen, 1997). This is not a concern with external selection, as the organization does not have a continuing relationship with external candidates who were not selected for the job.

Distinguishing Between Job Promotions and Other HR Practices. Job promotions are distinct from other rewards and HR practices that, on the surface, might be seen as having similar effects, such as job rotations and pay-for-performance schemes. I argue that job promotions are different than other types of rewards and HR practices in three ways. First, job promotions are arguably the most salient type of reward in an organization. As opposed to a monetary bonus or merit reward, for example, which are more salient to the individual receiving it than the workgroup, job promotions involve a movement within the organization (or internal movement) accompanying job position upgrade and/or a title change that makes it apparent to the workgroup that the individual was rewarded. Therefore, it can be argued that it is more impactful on coworkers than other reward practices. Second, job promotions offer intrinsic as well as extrinsic rewards simultaneously, as they increase status, esteem, responsibilities and financial rewards (Forbes, 1987; Gutteridge, 1973; Rosenbaum, 1984; Tharenou, 1997). Job rotation, which might be seen as similar to job promotions, refers to any change in assignment, usually indicated by a change in title or department, but, unlike job promotions, does not involve a change in compensation level (Campion et al., 2014). Third, average pay increase due to a job promotion (over 8%; World at Work, 2010) is larger than the typical within-grade merit increase (about 3%; Gerhart & Fang, 2014), giving a greater motivational boost to employees. Finally, organizational rewards, such as pay-for-performance schemes, are expected if an employee meets his/her goals or certain criteria, and eligible to almost all employees. However, job promotions are usually unexpected events (Holtom et al., 2005; Mitchell, Holtom, Lee, & Graske, 2001) that might not be experienced by all employees. Therefore, these factors make job promotions a core influential motivational tool for organizations and understanding how they translate to performance is crucial for firm success.

External Hiring. External hires are individuals who are hired with a specific firm but have had no experience working in that firm. This process begins with external recruitment, where organizations source candidates outside of the organization (see Yu & Cable, 2012). Barber (1998) divided the recruitment process into three stages—generating applicants, maintaining applicant status, and influencing job choices. Ployhart and Kim (2012) presented a model of strategic recruitment where job boards, social media, websites, and referrals are among the most common external sources of recruitment.

External hires may be selected over internal candidates for many reasons, including to fill specific organizational needs. For example, the most-discussed advantage for firms to hire external candidates over internal candidates is to learn from and take advantage of outside experience acquired from former organizations (Rao & Drazin, 2002; Rosenkopf & Almeida, 2003), and sometimes even to profit from the employees' relationships with former employers and clients (Somaya, Williamson, & Lorinkova, 2008). Some argue that external candidates bring in new and variant perspectives, skills sets, and ideas into the organization (Bidwell & Keller, 2014; Brookmire, 2013; Carpenter & Wade, 2002; Reilly et al., 2014), which may be much-needed during organizational transitions or change efforts. Environmental forces like fast changes in business conditions, greater complexity in business, rapid internationalization, changes in technology, new competition, and innovation impact the demand for human capital requiring different employee skills (rapid learning, computer skills, creativity, etc…).

These changes may create a skill profile mismatch with the market demands, making external employees who already possess such skills more appealing to firms. External hires were also found to be more impactful when presenting ideas (Reilly et al., 2014).

Additionally, there may not be a ready-to-go internal candidate to fill the position immediately. Because internal candidates are typically promoted to a higher position (DeVaro, Antti Kauhanen, & Valmari, 2019), they are then required to acquire and develop different skillsets before taking over new responsibilities, a process which takes time and resources. On the other hand, most external candidates are hired into similar positions (DeVaro, et al., 2019), making them more prepared to fill the new position. Hiring from the outside may also send a signal to the external labor market by creating a positive labor market reputation, making future hiring easier and thus more likely (Reilly et al., 2014). Additionally, Huselid and Becker (1995) termed job promotion practices as "bureaucratic HR" and found them to have economically and statistically significant negative effects on firm profitability in two different data sets.

The “Make vs. Buy” Argument. Whether organizations should choose one origin of hiring over the other has become a long-argued conceptual debate within organizational literature (Carter & Hodgson, 2006; Coase, 1937; Culliton, 1942; Mahoney, 2005; Walker & Weber, 1984). However, much of the current empirical research on internal and external hiring simply documents their prevalence in organizations, describes how observable characteristics differ between internal and external hires, and identifies the types of firms that choose one origin of hiring method versus another (Bidwell & Keller, 2014; Baker et al., 1994; Devaro et al., 2015; Keller & Bidwell, 2015). This leads to lack of clarity regarding which mode of hiring may be more beneficial than the other. In this dissertation, I extend this line of research by theorizing and empirically testing how and when each mode of hiring influences the performance, behavior, and attitudes of the hired individual (Chapter 1), as well as his/her subordinates (Chapter 2).

1.2.2. Organizational Engagement

While the definition of organizational engagement varies slightly in literature, the main concept is that it is a positive, work-related state of mind held by the employee towards the organization (Kahn, 1990; Robinson, Perryman, & Hayday, 2004), a state of mind characterized by vigor, dedication, and absorption (Schaufeli, Salanova, & Gonzalez-Roma, 2002). The definition of engagement involves experiencing energy, putting in effort, staying involved, showing up for work, remaining focused on the task (Kahn, 2010; Schenider et al., 2017), or being psychologically engaged (Macey and Schneider (2008) referred to it as state engagement).

Studies indicate that engaged employees are more committed, motivated, and empowered to perform in-role and extra-role behaviors, as well as less likely to voluntarily turnover (Christian, Garza, & Slaughter, 2011; Rich, LePine, & Crawford, 2010; Schaufeli, 2012). Studying employee engagement is important because it has been linked to individual, unit, and firm performance (e.g. Bates, 2004; Baumruk, 2004; Harter, Schmidt, & Hayes, 2002; Rich, LePine, & Crawford, 2010; Richman, 2006; Saks, 2006; Saks & Gruman, 2014) and has been described as the key to an organization's success and competitiveness (Macey, Schneider, Barbera, & Young, 2009; Saks & Gruman, 2014). Shuck, Adelson, & Reio (2017) provide a comprehensive review of how employee engagement is different from other constructs, such as job satisfaction. Harter and colleagues (2005) provide meta-analytic evidence to test the more appropriate causal direction between employee engagement and performance outcomes. They found that there was a stronger relationship from employee engagement to performance outcomes than from performance outcomes to employee engagement. This means that employee engagement is an important mechanism—that managers should focus attention on how to enhance employee engagement in order to reach desired business outcomes.

Although employee engagement has been linked to important individual and organizational outcomes, less theoretical and empirical work has been devoted to examining how HR practices and decisions contribute to employee engagement (Saks, 2006; Zhong, Wayne, & Liden, 2015). Employee engagement is important because it plays a key role in the translation of HR practices, such as job promotions, into actual outcomes, such as performance or behavior. In this dissertation, I contribute to this literature by examining the engagement of the internally/externally hired manager (Chapter 1) as well as the engagement of his/her subordinates (Chapter 2) in order to understand the mechanisms of how hiring decisions influence important outcomes.

1.3. HYPOTHESES

1.3.1. Hiring Origin & Manager Performance

The majority of the conceptual work in the organizational management field supports the idea that internally promoted managers may be more productive than external hires because they possess firm-specific human capital derived from their experience within the firm (Becker, 1962; Kor and Mahoney, 2004; Penrose, 1959). Firm-specific human capital is the knowledge and skills acquired through working at a specific organization and cannot be easily applied to other firms (Becker, 1964;

Buchholtz, Ribbens, & Houle, 2003; Chadwick & Dabu, 2009; Hatch & Dyer, 2004; Kor & Leblebici, 2005). This includes having (1) knowledge of organizational procedures, processes, resources, capabilities, and routines, (2) shared knowledge of various aspects of the firm (e.g. culture, social system, interpersonal relationships) and (3) tacit knowledge about the role of different stakeholders and their needs (Becker & Gerhart, 1996; Schein, 1990; Schmitt & Chan, 1998). All these factors can significantly affect a worker's performance and help get the new hire "up to speed" in their new role more quickly than external hires (Krell, 2015; Reilly et al., 2014).

Surprisingly, the empirical stream of research in this area is very scarce in the organizational management field. Bidwell (2011) compared external and internal hires employed into similar positions within the same financial firm using their subjective performance evaluations (measured using three factors: meeting objectives, having skills that match job requirements, and a forced performance rank). He found that internal hires outperformed external hires even though external hires had stronger general ability. This effect lasted over time; it took external hires two years to catch up with the performance levels of internal hires. DeOrtentiis and colleagues (2018) used data from a service retail organization to test whether internally promoted managers would receive higher performance ratings than externally hired managers. Manager performance was composed of several factors, measured annually, and evaluated using a 5-point scale, wherein supervisors assessed managers according to their judgment, communication skills, problem-solving skills, and effectiveness in subordinate management. They found a small effect size that supported their hypotheses that internally promoted managers would receive higher performance ratings than externally hired managers (although they concluded that the support was not especially strong because the hiring mode explained only 1% of the variance in manager performance ratings, and the mean difference between internal and external hire performance was small).

I contend that internally promoted managers will have better job performance ratings than external hires due to four advantages that firm-specific human capital brings: lower adjustment costs, knowledge about different stakeholders, a better understanding of firm-specific criteria, and a signal about future performance. First, internally promoted managers will require fewer adjustment costs when compared with external hires in terms of knowledge about a firm's business practices, values, and customers. Internal hires will require less time and effort to adjust in their new position because they already have an understanding of firm-specific knowledge with regard to organizational procedures, processes, resources, and routines. External hires lack firm-specific human capital because they do not have previous experience working in the organization for which they were hired. In fact, external hires may even need to unlearn knowledge gained in their previous firms before they can internalize the firm-specific knowledge of a new firm (Kor & Libibchi, 2005). Until they develop sufficient firm-specific knowledge, external hires may not be as productive as internal hires (Gilson and Mnookin, 1985). Second, internally promoted managers will have tacit knowledge about the needs and expectations of different stakeholders, such as employees, customers, and top management (Becker & Gerhart, 1996). For example, if the manager understands the skills and habits of his/her subordinates from day one, he/she would be able to manage and work with them more effectively and efficiently, which would reflect positively on the manager's individual performance. In contrast, external hires need more time to understand his/her subordinates’ skills, abilities, expectations, and habits. Third, internally promoted managers would better understand implicit job performance priorities, requirements, and firm-specific criteria (DeOrtentiis et al., 2018). For example, while “communication” may be a common performance criteria for which managers are evaluated, different firms expect different behaviors when it comes to communication, as one firm might evaluate managers on his/her communication with top management, while another firm may expect and evaluate a manager by his/her communication with his/her subordinates, and a third firm might have “communication” on the evaluation sheet, but it is not a priority when compared to other performance criteria. Externally hired managers would be initially ignorant of the types of behaviors and priorities that they should focus on. Fourth, the benefit of hiring managers internally includes greater stability and predictability of his/her skills and capabilities (Pfeffer & Baron, 1988). Getting a job promotion provides a signal to the manager’s supervisor about the performance and ability of the newly hired manager. Management typically have more information about internal candidates’ past performance and behavior within the organization, making it easier to assess fit and ability to succeed in the new job position. In this regard, hiring external candidates may be riskier than hiring internal candidates because organizations have less objective information about external candidates, leading to difficulties with forecasting training and developmental needs. This concept is backed by the fact that external hires have more variable performance than internal hires, and thus, lower rates of success. Practical journals have also reported the costly expenses and variable performance of hiring external employees, wherein between 40 to 60 percent of external hires aren't successful, compared with only 25% of internal hires (Schawbel, 2012). Such findings trigger questions from the manager's supervisor about the external manager's abilities and job performance. External managers may also be held to a higher standard, given the fact that they have more occupational capital than do internal managers, who are typically on-boarded with job trainings and monitoring (Keller, 2018).

Hypothesis 1: Externally hired managers will initially perform lower than internally promoted managers.

1.3.2. Hiring Origin & Manager Leadership Behaviors

While internal hires have firm-specific human capital as a tool to exceed in initial performance over external hires (Hypothesis 1), external hires also possess a capability that helps them excel even over internal hires in certain instances. I argue that external hires would have greater task-specific human capital, specifically leadership skills, which helps them excel in outcomes other than performance. Therefore, because it is important to look at outcomes other than performance in order to understand the full picture, I theorize a link between hiring origin and leadership behaviors that would tell a different story than by simply looking at subjective performance measures.

Lateral versus Horizontal Moves. Job promotions entail an increase in responsibility for the promoted individuals (internal hires). World at Work surveyed 541 member companies and reported that 80% of the firms include higher-level job responsibility as top criteria for defining employee promotion (World at Work, 2016). Outside of the technical, job-related responsibilities that increase/change by moving from one level to another, the individual promoted to various managerial levels would also have the responsibility of managing subordinates. Therefore, the new position to which the middle manager is promoted would require multiple skillsets, including leadership skills.

Unlike internally promoted individuals, however, external hires are less likely to experience more or different kinds of responsibilities from their previous positions, as they are most likely to be hired to a position at a similar level/job title in the hiring firm as in their previous firm (Bidwell and Mollick, 2015; DeVaro, Kauhanen, & Valmari, 2019). The assumption that guides the logic of this hypothesis is supported by multiple studies in varying contexts. For example, DeVaro, Kauhanen, & Valmari (2019) documented the relevant frequency of 7 modes of job entry in an employee–employer panel of multiple Finnish organizations from 1981 to 2014. They found that the most common type of job entry route is through an external horizontal transfer (33%). Other modes of external hire job entry were less frequently observed, especially with regard to the frequency of external hires promoted to a higher level/job title, which was labeled as a rare occurrence. Bidwell and Mollick (2015) also documented the frequency of external hires being appointed to the same job position in the new hiring firm (83%), as opposed to being promoted to a higher position (4%). These results support the assumption that external horizontal moves are the most common way to hire externally, meaning that external hires typically originate from the same job in a previous firm.

One interpretation of these results is that firms "play it safe" by hiring outsiders only to jobs that they held previously. Therefore, because external hires typically originate from the same job position/level they had in a previous firm, external hires would have higher occupation-specific or task-specific capital when compared with internally promoted hires (Kambourov and Manovskii 2009; Gathmann and Schönberg

2010), which is portable across firms (Gibbons and Waldman 2004, 2006; Kambourov and Manovskii 2009; Gathmann and Schönberg 2010; Cassidy 2017). Specifically, externals would possess advanced leadership skills developed from their managerial role in their previous firm, an important dimension of their job responsibility as managers. Because of such previous experience managing subordinates in a similar position, external hires would possess more generic human capital that the internal hire. Specifically, they would exhibit higher leadership behavior quality because leadership is a generic skill that can be applied across multiple firms. Internal hires on the other hand would need more time to develop leadership skills over time.

In this vein, one might argue that higher-level managers (e.g. floor managers versus directors) have already experienced and developed leadership skills in previous management positions within the firm. However, I argue that the necessary leadership skills at differing levels of the organization vary in scope and requirements (e.g. skills for leading floor employees differ from skills for leading regional directors); therefore, a firm would still benefit from the leadership skills of external hires. Thus, I hypothesize the following:

Hypothesis 2: Externally hired managers will initially exhibit higher quality of leadership behaviors than internally promoted managers.

1.3.3. Hiring Origin & Manager Engagement

There is an implicit assumption in literature that job promotions increase the promoted individuals' engagement, even though the direct relationship has not been, to my knowledge, empirically tested. The closest and most cited relationship used to support this premise comes from a meta-analysis on organizational commitment. The findings indicated that satisfaction with promotion opportunities increased organizational commitment (Mathieu & Zajac, 1990). The construct job satisfaction is also measured, with promotion opportunities as one of the facets. However, Carson, Carson, Griffeth, and Steel's (1994) study distinguished between perceptions of promotional opportunity, actual promotion, and promotion satisfaction. Using meta-analytical procedures, they found that each of the three constructs did not have similar consequences (turnover was the variable of interest). Therefore, it is important to empirically test the direct relationship of experiencing an actual job promotion and engagement.

Much about pre-job promotion motivation can be explained by tournament theory (Lazear and Rosen, 1981). During the tournament, the promotion is the motivating reward. However, according to tournament theory logic, after a promotion is achieved, the motivation of the promoted individuals becomes insufficient. However, psychological theories such as expectancy theory (Vroom, 1963) and equity theory (Adams, 1965) both suggest that the relationship between rewards and performance should play a key role in motivating employee behavior. In this context, important rewards include job promotions. Hiring internal workers through job promotions increases their status, esteem, responsibilities, and financial rewards (Forbes, 1987; Rosenbaum, 1984; Tharenou, 1997). Job promotions have also been found to decrease desirability of turnover by increasing organizational attachment (Lee, Mitchell, Sablynski, Burton, & Holtom, 2004), as they increase prospects of future job opportunities and are associated with pay growth (Gerhart & Milkovich, 1992). I use signaling theory below to explain how job promotions may lead to organizational engagement.

Signaling Theory. Organizations are dynamic, and as a consequence, current employees do not have perfect information about the organization. Since employees have incomplete information about the organization’s intentions, they use signals from the organization to draw conclusions about an organization's intentions and actions (Spense, 1973), including looking at implemented HR practices. HR practices may serve as signals to workers, allowing them to better understand desired behaviors and appropriate responses, and to share common beliefs about which behaviors are expected and rewarded (Guzzo & Noonan, 1994; Rousseau, 1995; Tsui, Pierce, & Porter, 1997). They may also be perceived as symbolic of broader organizational characteristics and values (Rynes, Bretz, & Gerhart, 1991). For example, Rynes et al. (1991) concluded that job applicants use cues or signals from an organization to draw conclusions about the organization's intentions, actions, and characteristics because they do not have perfect information about the organization. These signals provide information about both the working conditions and values of the organization (Breaugh, 1992; Turban, 2001; Turban & Greening, 1997). Signals might include looking at the recruiters’ demographic background as a signal for the organization’s diversity values, or analyzing the compensation system in order to assess the importance of collaboration in the job position. Within job promotion literature, signaling theory has been used to propose that promotions serve as a signal to the external labor market of an employee’s ability (e.g. DeVaro & Waldman, 2007; DeVaro & Waldman, 2012; Trevor et al., 1997; Waldman, 1984; Waldman, 2013). Specifically, it focuses on the promoted individual as observed by other potential employers, as these firms may later infer that a worker is of high ability based on his/her job promotion (DeVaro & Waldman, 2007), thus making them more likely to leave the current organization once promoted (Trevor et al., 1997).

The selection practice which involves deciding the manager's origin also sends signals about the firm to the internal labor market. In the case of hiring an internal manager through a job promotion, I argue that such a move sends signals to the promoted individual about career progress, growth opportunities, and how much the firm values that individual. Signals about career progress and growth opportunities could be interpreted by the promoted individual as a signal of the management's willingness to invest in that specific employee and his/her career development, as well as the firm's long-term interest in the employee. This signal specifically fulfills the need for growth and attainment of potential (Alderfer, 1969) that is inherent in individuals and recognized by the majority of the motivational theories (Alderfer, 1969; Herzberg, 1966; Maslow, 1968; McClelland, 1962). Recent research has shown that career growth is an important determinant of employee–organizational relationships (Weng & McElroy, 2012). Seigts and colleagues (2006) identified career advancement as an important engagement factor. Organizations that provide mechanisms for employee career advancement create a mutual investment type of relationship with their employees that, in turn, is reflected by a relationship that ties career growth to important outcomes, such as perceived organizational support (Tsui, Pearce, Porter, & Tripoli, 1997). For example, Liu (2004) found that employee perceptions of career development opportunities were positively related to perceived organizational support, which, in turn, was related to employee engagement (Zhong et al., 2016). Additionally, job promotions signal job security and a long-term interest in employees, which meets one of three psychological safety condition identified by Kahn (1990) as drivers of engagement.

External hires, on the other hand, would be less engaged, because in addition to learning the job's responsibilities and requirements, external hires also have to undergo a learning cycle about firm-specific routines, rules, policies, and systems. Therefore, I hypothesize that externally hired managers will have less organizational engagement than internally promoted managers.

Hypothesis 3: Externally hired managers will initially be less organizationally engaged than internally promoted managers.

1.3.4. Moderator: Hiring mode, Manager Performance, and Creative Functions

Conventional wisdom holds that firms are better off hiring internal employees to open job positions because these individuals constitute firm-specific knowledge and skills. While the majority of conceptual theories and practical press concentrate on the benefits on staffing internal hires more than external hires, there lies varying empirical evidence of the effects of internal versus external hires on several different outcomes and in several different contexts. For example, while some studies found evidence that internal hires exceeded external hires in terms of performance measures, at least in the short run (DeOrtentiis et al., 2018; Bidwell, 2011), other studies have failed to find this relationship (e.g. Kor & Leblebici, 2005; Reilly et al., 2014). For example, using a sample of law firms, Kor and Leblebici (2005) studied the complementary relationships between the firm's strategies (geographical and service diversification), the origin of hiring of associates (external versus internal employees), and human capital development strategies (the ratio of associates working with knowledge experts) on the firm's profitability. Even though the comparison between internal and external associates was only used as a moderator and not directly tested, the regression table shows no significant relationship between the degree to which a firm hired associates externally instead of developing them internally and firm profits. This means that the study did not find evidence that hiring internal associates is more beneficial than hiring external associates when it comes to unit performance. The study did find however an interaction effect, where the relationship between the hiring origin of associates and firm performance relied on the firm's human capital development strategies.

A study by Reilly and colleagues (2014) also used the firm-specific human capital advantage logic when predicting the difference between the immediate effect of hiring rates (external hires) and transfer-in rates (internal hires) on patient satisfaction (their Hypothesis 3c). The study did not find support for the relationship; there was no evidence to prove that there is a difference between external and internal hiring rates on immediate patient satisfaction. However, the study also hypothesized and found that the positive effect of hiring rates on patient satisfaction lasted longer than the positive effect of transfer-in rates on patient satisfaction which didn't exceed five months. This was attributed to the idea that external hires have a more innovative perspective than internal hires. Another study looking at 185 women's Division I basketball coaches over time found that the origin of the new coach (whether insider or outsider) did not matter, as they all had approximately the same subsequent performance results when measured by team wins (Pierce, Johnson, Krohn, & Judge, 2017). Overall, these results (or lack of) suggest that the effect of hiring internal versus external candidates can be more contextually related. Below, I argue that in creative job function, externally hired managers will perform better than internally promoted managers because of the importance of occupationally specific skills, and role transition.

Although a wave of studies supports the notion that integrating outsiders who lack firm-specific human capital results in high costs, I believe that context plays a vital role in determining how important firm-specific human capital really is to performance. Firm-specific human capital was found to be important to performance when job environments allowed for the 'human element' to be controlled. For example, the sample used in previous studies included jobs with more routinized tasks and relatively lower knowledge-based skills needed and higher turnover observed, such as banking (e.g. Bidwell, 2011) and quick-service (e.g. DeOrtentiis et al., 2018) jobs. In such contexts, performance is required from day one, and speed is a skill and criterion on which employees would be evaluated. This means that knowing the norms, routines, policies, and procedures beforehand would bring an advantage to employees, while thos lacking such knowledge (external candidates) would need more time to learn. However, I argue that there are distinct organizational contexts wherein firm-specific human capital would not only be irrelevant, but it could even cause harm. For example, for jobs that demand and have a facet of innovation or creativity as a performance criterion, outside knowledge that is not firm-specific would be important for performance and success. In fact, firm-specific knowledge might limit the performance an individual working in a creative function as firm-specific knowledge might instigate group-think, lower diversity, limited communication and bias.

Creative Function. A creative environment is not defined with respect to a particular occupation (Mumford, Whetzel, & Reiter-Palmon, 1997). A creative environment can occur when the tasks presented involve complex and complicated problems where performance requires a generation of novel, useful solutions (Besemer & O'Quin, 1999, Ford, 2000, Mumford & Gustafson, 1988, Ward et al., 1999).

Researchers have reported very little difference between innovative and creative tasks (Amabile, 1996; Mumford, et al.,1997). Creativity usually involves a step where new knowledge or ideas are processed, whereas innovation addresses the use or commercialization of inventions. Additionally, environments that stimulate creativity are likely to motivate innovation (see, for example, Amabile, 1996). Creativity based on imagination and originality can thus be considered as overlapping strongly with innovation tasks.

There are important distinctions to consider when understanding the unique aspects of functions requiring creativity and innovation. For example, the outputs and performance measures are usually different than those used in other departments of a firm. Rather than the timely and market-sensitive measures to which employees are accustomed, such as profitability and return on investment, creative functions tend to have a time-lagged, nonmarket aspects to the related outputs (Narayanan, 2001). For example, new products, patents, medication, or innovations can take years before they are transformed into actual outputs whereby financial value can be captured. Hence, performance measurement and evaluation of creative functions is usually performed under uncertainty, with the use of proxies such as management evaluation of project progress. Therefore, for such occupations, demand for firm-specific skills may not be as salient as non-knowledge intensive jobs that require people to perform on day one (e.g. service industry or banking industry).

Additionally, some aspects of firm-specific human capital might not be beneficial in creative and innovative contexts. One concern with hiring internal candidates is that it would limit organizational diversity and innovation (Schawbel, 2012). Bringing experience from outside the company can be advantageous, especially when the ideas generated by outside newcomers are likely to be less incremental than ideas from inside workers. The executive literature has highlighted such findings in numerous studies. DiMaggio and Powell (1983), suggest that interfirm movement of personnel is a particularly important mechanism through which innovations diffuse among competitors in an industry. Similarly, the resource-based view of the firm acknowledges that recruitment from outside can enable firms to bypass constraints on growth imposed when relying solely on internally grown resources and capabilities (Barney 1991; Penrose 1959). Additionally, external hires would not have psychological ties (perceived and real) within the hiring organization that might complicate efforts both to exceed in performance and take on leadership initiatives (Dai, De Meuse, and Garddert, 2011). Social ties and established social capital with members in the organization might heighten political biases and limit openness and the sharing of new ideas, which is a vital feature in a creative context.

Leading creative and innovative employees requires managers to possess certain skills in addition to technical expertise (Amabile, 1988; Amabile, Schatzel, Moneta, & Kramer, 2004; Mumford, Scott, Gaddis, & Strange, 2002). Leaders in such occupational creative departments are usually selected as much for their technical expertise as for their leadership skills (Narayanan, 2001). Because employers will focus on hiring people from the outside who have already held a similar level of responsibility (Bidwelll and Mollick, 2015), external hires will not only introduce a fresh perspective, but would have more task and occupational human capital than internal hires, including the skills to lead a team of creative individuals. For internal hires, however, the transitional switch from subordinate to manager would be more salient. As Ashforth, Kreiner, & Fugate (2006) emphasized, the transitional roles from subordinates to middle managers in the workplace (vertical code-switching) create role conflict. The norms and expectations associated with being a leader are incompatible with the norms and expectations associated with those of a subordinate or coworker. Therefore, the internally promoted managers must disengage from a task that requires one mindset and engage in another task that requires a very different mindset. Getting physically and psychologically accommodated to the new role not only disrupts physical performance, but also creates psychological strain and stress (Ashforth et al., 2006).

Although many variables influence creativity and innovation, a literature review by Mumford and colleagues (2002) which examined how leadership behaviors contribute to creativity and innovation in organizational settings found that leadership of creative people requires most importantly expertise. Therefore, while internally promoted managers may have an advantage over externals by possessing firm-specific human capital, externally hired managers would perform better in functions where an aspect of creativity is included as a performance criterion that employees are rated on. The argument holds that because external hires have more experience and education in general (Baker et al. 1994, Bidwell 2011, Kauhanen and Napari 2012), not to mention occupational and task-specific expertise in the same job position, they would perform better in environments requiring creativity. In contexts where creativity is vital, firm-specific human capital (which aids in learning speed) might not be an advantage to performance as much as occupation/task specific skills and job-related knowledge. Therefore, I hypothesize the following:

> *Hypothesis 4: Job function will moderate the relationship between manager hiring origin and performance such that on average, externally promoted managers will have higher performance than internally promoted managers in creative functions versus non-creative functions.*

1.4. METHODS

1.4.1. Sample

The data for this study were drawn from three years of annual surveys administered to employees in a public traded firm that operates globally. Employee survey data is linked to manager data. Employees span different departments, functions, and levels within the firm. The survey was initiated to measure the firm's progress on employee engagement and culture. The survey was administered to all active, full-time employees.

1.4.2. Analytic Approach

The main hypotheses focus on the comparison between internally promoted managers and externally hired managers for different outcomes. I "stacked" the data for the three years controlling for year in the models. Therefore, in the main analysis I report data on hired managers in each of the three years to represent effects in the year of hire, or immediate effects. In the supplementary analysis, I lag the dependent variable one year, therefore, I only utilize the data from two time periods. In my analysis, I do not compare hired and tenured managers' outcomes—although it can be an intriguing question—as my interest lies in comparing managers of different hiring origins.

I used random coefficient modeling with restricted maximum likelihood estimation (Bliese, Chan, & Ployhart, 2007; Raudenbush & Bryk, 2002) to analyze the data. The advantage to this type of model is that it accounts for the non-independent, hierarchical nature of the data with known sources of variance (e.g. group or team affiliation), thereby reducing bias in statistical models (Bliese, 2000; Bliese & Hanges, 2004; Bliese & Ployhart, 2002). Such models have been identified as particularly useful in the context of understanding how organizational actions may affect employees (e.g. Klein, Dansereau, & Hall, 1994). The mixed effects models have a random effect component. I then compare models to determine whether the random intercept terms are relevant to include/exclude in the models. As an example, the multilevel model includes a term that accounts for the workgroup which acknowledges that responses from the middle managers are nested under a specific workgroup. Functionally, the models will "average" all direct report responses by group (Bliese 1998; Bliese 2002; Bliese & Ployhart, 2002).

Before I began the analyses, I checked to see the most appropriate way to test my predictions. Following the approach presented by Bliese & Ployhart (2002), I first estimate an unconditional means model which does not contain any predictors but includes a random intercept variance term for workgroups (operationalized by the supervisor's ID). This model looks at how much variability there is in mean values of the dependent variable (i.e., how much variability there is in the intercept) relative to the total variability. By default, the function used in the software fits the model by restricted maximum likelihood. The intraclass correlation coefficients (ICC) were 0.13 (performance), 0.32 (leadership behavior) and .11 (organizational engagement). In conclusion, the model that allows for random intercept variation in the dependent variable (for all the three outcomes modeled separately) is better than a model that does not allow for this random variation. I conduct the analysis using R statistical software (R Core Team, 2018).

1.4.3. Variables

Middle Manager Hiring Origin. All employees at the firm occupy grades across the organization that are central determinants of pay and responsibilities. The grades are further organized into bands. Moving from one band to another indicates a job promotion, or an upgrade in rank, pay, and managerial responsibilities. The firm had three main levels of middle managers, which I refer to as Position Grade 1 (lowest middle manager position), Position Grade 2, and Position Grade 3(highest middle manager position). I identified an internally promoted manager by coding whether they were promoted within the year, coupled with an upgrade of the individual's band level. To identify externally hired managers, I took into account both the band level and tenure within the firm. If the employee were employed in the hiring firm for less than one year, he/she was coded as an external hire. I then dichotomized the variable (internally promoted manager = 0; externally hired manager =1). "In the year of hire" emphasizes that the score was taken in the year the managers were hired or promoted. Usually studies use a lagged effect to capture such phenomenon, depending on their inquiry. I was interested in the immediate consequences and wanted to utilize the data from all the years. However, I also recognize that there might be concerns about the time period between the hire data and the survey (e.g. a manager hired one month before the survey versus 11 months before the survey). So in addition to controlling for tenure (using days), I also conducted a supplementary analysis where I lagged the dependent variables for one lagged. In the main analysis, 962 managers were promoted from inside the firm and 115 were externally hired.

Organizational Engagement. I used a self-report measure consisting of four items. An example of an item is: "I feel energized by my job" (from Schneider, Yost, Kropp, Kind, and Lam, 2017). Respondents answered using a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). An exploratory factor analysis and confirmatory factor analysis were performed to check the psychometrics and reliability of the scale used (CFI= .98; SRMR = .017). The Cronbach's alpha for the organizational engagement scale was .87.

Performance. The middle manager's supervisor evaluates the middle manager based on his performance using a Likert scale (5 = exceptional; 4 = exceeded expectations; 3 = meets expectations; 2 = improvement needed, and 1 = unsatisfactory). The performance ratings reported reflect a holistic evaluation of the person's performance. The mean performance rating was a 3.05 (S.D. 0.73). Any individual with a rating of a 0 was removed from the analysis as the scale ranged from 1 to 5 as confirmed by the firm.

Leadership Behavior Quality. Supervisors evaluate the middle managers on several criteria related to behaviors that exemplify a high quality leader. The firm has five on which most individual employees are evaluated on yearly. Each category is scored out of five, and the firm adds them up to form a leadership behavior quality score, which also signals to manager's their potential career path as a leader. The average score was 19.47 (S.D.= 2.93), and the minimum score was an 8. I made sure that all the individuals had complete scores on all five of the sub-factors; if otherwise, they were excluded from the data. The Cronbach's alpha for the scale was .88.

Creative Function. I dichotomized this variable in the main analysis, where employees were marked as 1 if they are working in a creative function, and 0 if they work in other functions. In the data, there were 439 newly hired middle managers managing creative function, and 638 in other, non-creative functions.

Covariates. Age has a high impact on the dependent variables and was included as a covariate. Age was centered to the mean. Also, because length of service is often associated with job performance (Sturman, 2003), I included tenure, measured as the log-transformed number of days in the unit, which was logged and centered. This also accounts for the time individuals were hired and when they took the survey. The firm is global, so I had to control for country effects that may influence the results. Country was included and dichotomized (1 = USA, 0= Other countries). Position grade is a factor used to identify the managerial level. The year was also included as a covariate.

1.5. RESULTS

1.5.1. Main Analyses

Descriptive statistics and correlations are presented in Table 1.1. There were 962 managers internally promoted, and 115 were externally hired. There were 439 newly hired middle managers leading creative functions, and 638 in the other, non-creative functions. The mean age for a middle manager was 42-43 years old (S.D.= 7.76), and the average tenure was about 8 years. Sixty-four percent of the managers worked in the USA, while the rest worked in other countries.

Each outcome was analyzed and presented on separate tables. Hypothesis 1 predicts that externally hired managers will initially perform lower than internally promoted managers. The results are presented in Table 1.2. Model 2 on Table 1.2 shows that the relationship was negative and significant (b = -0.27; SE = 0.06; $p<0.001$), supporting Hypothesis 1. This also supports previous findings in literature that the performance of external hires is lower than internal hires initially. Hypothesis 2 proposes that externally hired managers will initially exhibit higher quality of leadership behaviors than internally promoted managers. The results are presented in Table 1.3. Model 2 shows that the relationship was not significant (b = -0.07; SE = 0.33; n.s.), failing to support Hypothesis 2. Hypothesis 3 predicted that externally hired managers will initially be less organizationally engaged than internally promoted managers. The results are presented in Table 1.4 and fail to supports Hypothesis 3 (b = -0.05; SE = 0.08; n.s.).

In Hypothesis 4, I predicted that job function will moderate the relationship between a manager's hiring origin and performance. Specifically, I propose that externally promoted managers will have higher performance than internally promoted managers in creative functions as opposed to non-creative functions. Model 3 on Table 1.2 shows that the interaction between the external hire variable and the creative function variable was not significant (b = 0.01; SE = 0.11; n.s.), failing to support Hypothesis 4.

1.5.2. Supplementary Analyses

Unpredicted Interactions. Although I did not hypothesize the following relationships, I ran models which included interactions of hiring origin and creative functions on the other dependent variables, leadership behaviors and organizational engagement. The results are presented on Table 1.3 (Model 3) and Table 1.4 (Model 3). The interaction relationship between external hires and creative function was not significant for neither leadership behavior quality (*b* = -0.74; *SE* = 0.09; n.s.) nor organizational engagement (*b* = -.11; *SE* = 0.13; n.s.).

Lagged Model. In the main analysis, the outcome variables reflect the time period between the last survey and most recent survey, so I captured the outcomes of the manager "within the first year of hire." In this analysis, I also tested models with a one-year lag between the year of hire and the outcomes. A year lag may also make sense because it takes time for the predictors to reflect on outcomes. The results are presented in Table 1.5 (lagged performance), Table 1.6 (lagged leadership behavior quality), and Table 1.7 (lagged organizational engagement). The lagged models show that internal hires exceeded external hires in performance (Table 1.5, Model 2; *b* = -0.20; *SE* = 0.09; $p<0.05$), leadership behaviors (Table 1.6, Model 2; *b* = -0.95; *SE* = 0.44; $p<0.05$), and organizational engagement (Table 1.7, Model 2; *b* = -0.21; *SE* = 0.10; $p<0.05$). When testing the interaction between the external hire and creative function variables on performance (as predicted in hypothesis 4 of the main analysis), the result was not significant as shown on Table 1.5, Model 3 (*b* = -0.07; *SE* = 0.16; n.s.). However, an unpredicted interaction was significant between the external hire and creative function variables on the leadership behavior quality outcome (Table 1.6, Model 3 (*b* = -1.55; *SE* = 0.74; $p<0.05$), meaning that external hires had lower leadership behavior quality in creative functions than internal hires in the year after the manager was hired.

1.6. DISCUSSION

The theoretical contribution as well as the empirical results presented in this chapter would be a valuable addition to the "make vs. buy" conversation in many ways. First, I advance the "make vs. buy" scholarly conversation by integrating the creativity and innovation literature to better understand when to make versus buy managerial human capital. I argue that in creative environments firms are better off hiring external managers because of the time-lag nature of the requirement and outputs in that environment. Second, I use survey data to study the impact of different hiring origins on a variety of outcomes. I am able to capture 'performance' as a firm-specific criterion for evaluating performance, as well as 'leadership behavior quality,' which is considered a general criterion to evaluate performance. Previous studies have used firm-specific criterion to evaluate performance outputs, specifically results subjective performance evaluations, which is firm-specific. Looking at organizational engagement allows us to uncover the causal mechanisms that can influence performance by understanding why performance is affected. I further theorize that the outcome of interest is an important factor when studying managerial origin, as I investigate leadership behaviors and performance to argue that external hires may excel in other performance-based criteria that are more generic, such as leadership quality. Third, the field sample is unique, in that it allows us to test the influence of managerial origin in different tasks, including both creative jobs and non-creative jobs. While past studies have looked at the financial and quick service retail jobs, which are more structured and require less knowledge intensity, I theorize and test that finding the benefits of managerial origin lies in matching the manager's skills with the nature of the performance criteria (general or specific performance criteria).

The results in Chapter 1 promote further investigation of the topic. The main analysis of this study confirms what was found in past studies but in a different context: internally promoted managers outperformed external hires on the performance variable. While previous studies found the results in financial or service firms where immediate performance is required (and the employees would most likely be evaluated on firm-specific performance criteria), the sample used in this paper included diverse jobs where either general or specific performance criteria is used to evaluate performance.

Table 1.1: Descriptive Statistics and Pearson Correlations of Chapter 1

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1. Org. Engagement	4.20	0.68									
2. Performance	3.05	0.73	0.06*								
3. Leadership Behavior	19.47	2.93	0.56*	-0.01							
4. External Hire (1/0)	0.11	0.41	-0.01	-0.19*	-0.55*						
5. Creative Func.(1/0)	0.41	0.49	-0.22*	0.05	-0.05	-0.02					
6. Firm Tenure	7.96	7.06	0.05	-0.01	0.31*	-0.5*	-0.07*				
7. Age	42.50	7.76	0.06*	-0.14*	0.03	0.01	0.1*	0.31*			
8. Female (0/1)	0.53	0.51	0.1*	-0.14*	0.05	0.02	-0.05	-0.01	-0.05*		
9. Direct Reports	5.51	3.17	0.21*	0.08*	-0.01	-0.07*	0.02	0.08*	0.15*	0.11*	
10. Country USA (1/0)	0.64	0.48	-0.0*	-0.13*	-0.1*	0.05	0.15*	0.07*	0.02	-0.04	-.11*

N= 1,077 individuals
* p < .05

Table 1.2: Random Coefficient Model Analyses Predicting Middle Manager Performance

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	2.34***	0.05	2.41***	0.06	2.41***	0.06
Year (1 vs 2)	1.21***	0.04	1.14***	0.05	1.14***	0.05
Year (1 vs 3)	1.21***	0.04	1.16***	0.04	1.16***	0.04
Country (USA vs Other)	-0.13***	0.04	-0.12***	0.04	-0.12***	0.04
Firm Tenure[1,2]	0.00	0.00	-0.00	0.00	-0.00	0.00
Age[2]	-0.01***	0.00	-0.01***	0.00	-0.01***	0.00
Female (1/0)	-0.03	0.03	-0.03	0.03	-0.03	0.03
Position Grade (Level 2 vs 1)	-0.06	0.04	-0.06	0.04	-0.06	0.04
Position Grade (Level 2 vs 3)	0.21 **	0.07	0.22 **	0.07	0.22 **	0.07
Creative Function (1/0)	-0.05	0.04	-0.07	0.03	-0.07	0.04
External (1/0)			-0.27***	0.06	-0.28***	0.07
External x Creative Function					0.01	0.11
Random Effects						
σ^2	0.28		0.28		0.28	
τ_{00}	0.01		0.01		0.01	
ICC	0.03		0.03		0.03	
N	794		794		794	
Observations	1077		1077		1077	
Marginal R^2 / Conditional R^2	0.518 / 0.532		0.526 / 0.541		0.526 / 0.541	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed

[2] Centered to the mean

The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest).

Table 1.3: Random Coefficient Model Analyses Predicting Middle Manager Leadership Behavior Quality

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	19.85***	0.29	19.86***	0.30	19.84***	0.30
Year (1 vs 2)	0.07	0.24	0.05	0.25	0.06	0.25
Year (1 vs 3)	-0.15	0.21	-0.16	0.22	-0.15	0.22
Country (USA vs Other)	-0.61**	0.19	-0.61**	0.20	-0.62**	0.20
Firm Tenure[1,2]	0.02	0.01	0.02	0.01	0.02	0.01
Age[2]	-0.00	0.01	-0.00	0.01	-0.00	0.01
Female (1/0)	0.66***	0.18	0.66***	0.18	0.66***	0.18
Position Grade (Level 2 vs 1)	0.12	0.21	0.12	0.21	0.11	0.21
Position Grade (Level 2 vs 3)	0.24	0.40	0.24	0.40	0.27	0.40
Creative Function (1/0)	-0.98***	0.19	-0.98***	0.19	-0.91***	0.20
External (1/0)			-0.07	0.33	0.21	0.40
External x Creative Function					-0.74	0.59
Random Effects						
σ^2	7.35		7.35		7.36	
τ_{00}	0.75		0.75		0.74	
ICC	0.09		0.09		0.09	
N	794		794		794	
Observations	1077		1077		1077	
Marginal R^2 / Conditional R^2	0.065 / 0.151		0.065 / 0.151		0.066 / 0.151	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed

[2] Centered to the mean

The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest).

Table 1.4: Random Coefficient Model Analyses Predicting Middle Manager Organizational Engagement

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	4.35***	0.07	4.36***	0.07	4.36***	0.07
Year (1 vs 2)	0.06	0.05	0.05	0.06	0.05	0.06
Year (1 vs 3)	-0.02	0.05	-0.03	0.05	-0.03	0.05
Country (USA vs Other)	-0.09 *	0.04	-0.09 *	0.04	-0.09 *	0.04
Firm Tenure[1,2]	0.00	0.00	0.00	0.00	0.00	0.00
Age[2]	0.01	0.00	0.01	0.00	0.01 *	0.00
Female (1/0)	0.10 *	0.04	0.10 *	0.04	0.10 *	0.04
Position Grade (Level 2 vs 1)	-0.06	0.05	-0.06	0.05	-0.06	0.05
Position Grade (Level 2 vs 3)	0.13	0.09	0.14	0.09	0.14	0.09
Creative Function (1/0)	-0.30***	0.04	-0.30***	0.04	-0.29***	0.04
External (1/0)			-0.05	0.08	-0.01	0.09
External x Creative Function					-0.11	0.13
Random Effects						
σ^2	0.39		0.39		0.39	
τ_{00}	0.03		0.03		0.03	
ICC	0.07		0.06		0.06	
N	794		794		794	
Observations	1077		1077		1077	
Marginal R^2 / Conditional R^2	0.072 / 0.133		0.072 / 0.132		0.073 / 0.130	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed

[2] Centered to the mean

The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest).

Table 1.5: Supplementary Analyses: Linear Regression Predicting Lagged Middle Manager Performance

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	3.52***	0.07	3.58***	0.08	3.57***	0.08
Year	-0.12 *	0.05	-0.16**	0.06	-0.16**	0.06
Country (USA vs Other)	-0.12 *	0.06	-0.11 *	0.06	-0.11 *	0.06
Firm Tenure[1,2]	-0.00	0.00	-0.01 *	0.00	-0.01 *	0.00
Age[2]	-0.02***	0.00	-0.01***	0.00	-0.01***	0.00
Female (1/0)	0.07	0.05	0.07	0.05	0.07	0.05
Position Grade (Level 2 vs 1)	-0.12	0.06	-0.13 *	0.06	-0.13 *	0.06
Position Grade (Level 2 vs 3)	0.42***	0.11	0.44***	0.11	0.44***	0.11
Creative Function (1/0)	-0.04	0.06	-0.05	0.06	-0.04	0.06
External (1/0)			-0.20 *	0.09	-0.18	0.11
External x Creative Function (1/0)					-0.07	0.16
Observations	589		589		589	
R^2 / R^2 adjusted	0.078 / 0.065		0.085 / 0.071		0.085 / 0.070	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed
[2] Centered to the mean
The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest).

Table 1.6: Supplementary Analyses: Random Coefficient Model Analyses Predicting Lagged Middle Manager Leadership Behavior Quality

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	20.94***	0.35	21.19***	0.37	21.12***	0.37
Year	0.12	0.25	-0.11	0.27	-0.10	0.27
Country (USA vs Other)	-0.60 *	0.27	-0.55 *	0.27	-0.55 *	0.27
Firm Tenure[1,2]	0.02	0.02	0.00	0.02	0.00	0.02
Age[2]	0.01	0.02	0.01	0.02	0.02	0.02
Female (1/0)	-0.84***	0.24	-0.85***	0.24	-0.85***	0.24
Position Grade (Level 2 vs 1)	-0.37	0.30	-0.38	0.30	-0.41	0.29
Position Grade (Level 2 vs 3)	-0.22	0.56	-0.14	0.56	-0.03	0.55
Creative Function (1/0)	-1.32***	0.26	-1.38***	0.26	-1.20***	0.28
External (1/0)			-0.95 *	0.44	-0.45	0.50
External x Creative Function					-1.55 *	0.74
Random Effects						
σ^2	6.86		6.73		6.88	
τ_{00}	1.61		1.68		1.47	
ICC	0.19		0.20		0.18	
N	473		473		473	
Observations	589		589		589	
Marginal R^2 / Conditional R^2	0.085 / 0.258		0.092 / 0.273		0.099 / 0.257	

* *p<0.05*   ** *p<0.01*   *** *p<0.001*

[1] Log-transformed

[2] Centered to the mean

The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest).

Table 1.7: Supplementary Analyses: Random Coefficient Model Analyses Predicting Lagged Middle Manager Organizational Engagement

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	4.49 ***	0.08	4.54 ***	0.08	4.53 ***	0.08
Year	0.06	0.06	0.01	0.06	0.01	0.06
Country (USA vs Other)	-0.07	0.06	-0.06	0.06	-0.06	0.06
Firm Tenure[1,2]	0.01 *	0.00	0.00	0.00	0.00	0.00
Age[2]	0.00	0.00	0.01	0.00	0.01	0.00
Female (1/0)	-0.16 **	0.05	-0.16 **	0.05	-0.16 **	0.05
Position Grade (Level 2 vs 1)	-0.10	0.07	-0.10	0.07	-0.11	0.07
Position Grade (Level 2 vs 3)	-0.05	0.12	-0.03	0.12	-0.01	0.12
Creative Function (1/0)	-0.39 ***	0.06	-0.41 ***	0.06	-0.38 ***	0.06
External (1/0)			-0.21 *	0.10	-0.14	0.11
External x Function					-0.22	0.17
Random Effects						
σ^2	0.35		0.34		0.35	
τ_{00}	0.08		0.08		0.07	
ICC	0.18		0.18		0.17	
N	473		473		473	
Observations	589		589		589	
Marginal R^2 / Conditional R^2	0.112 / 0.272		0.119 / 0.277		0.122 / 0.273	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed

[2] Centered to the mean

The following were treated as factors and the referent (=1) is listed first, respectively: Country (USA vs Other); Female (vs Male); Creative Function (vs Other Functions); External (External hire vs Internal hire); Position Grade (Middle Manager Level: 1 = lowest, 3= highest)

CHAPTER 2: THE SOCIAL INFLUENCE OF MAKING VERSUS BUYING MANAGERIAL HUMAN CAPITAL ON SUBORDINATE OUTCOMES

2.1. INTRODUCTION

Organizational research is increasingly considering the importance of studying the social influence that HR practices and decisions have on third-party stakeholders (or entities that are not directly involved in or targeted in the HR decision/practice; Ho and Levesque, 2005; Larkin, Pierce, & Gino, 2012; Maltarich, Nyberg, Reilly, Abdulsalam, & Martin, 2017). Hiring events may have an influence on unit performance (e.g. Collins & Smith 2006; Delery & Doty 1996; Huselid, 1995) by indirectly influencing the perceptions and behaviors of other employees in the firm. While extant theoretical literature contributes to the understanding of the hired or promoted person's individual performance outcomes (e.g. Bidwell, 2011), how third parties who are not the focal individuals hired, such as subordinates, perceive and experience the hiring decision remains little understood. The influence of hiring decisions on subordinates is important to study because first, these employees are assumed to comprise the majority of the firm. Second, after witnessing the process and outcomes of the hiring decisions, mechanisms that influence job performance, such as expectancies, perceptions, and attitude, might change as a response. Therefore, in Chapter 2 of this dissertation, I advance the literature on staffing and the "make vs. buy" argument by exploring the social influence associated with hiring decisions. Specifically, I integrate psychology and economic rationale to study the impact of the hiring origin of middle managers on subordinate behaviors, affect, and performance.

This chapter contributes to literature in three ways. First, I challenge the assumed role of firm-specific human capital as a source of sustained competitive advantage by identifying boundary conditions where occupation specific capital would be more valuable. I do so by studying the influence of managerial hiring on subordinates, who were not the center of attention in previous studies. Subordinates are important to study because they comprise the majority of the firm and are strongly and directly influenced by managerial hiring decisions. Therefore, it is important to investigate how subordinate perceptions of the middle manager's origin may drive behavior and attitudes, beyond that of the hired individual. Although DeOrtentiis et al. (2018) have looked at newly hired managers' effect on unit performance measures, this study focuses on the subordinates' individual performance, attitudes, and behaviors, reflecting common situations where employees are evaluated on individual performance measures vs unit or group measures. This further advances the "make vs. buy" scholarly conversation by depicting when to make versus when to buy managerial human capital based on their influence on subordinates. Second, I use survey data to capture the psychological states of employees beyond performance measures. This allows us to uncover the causal mechanisms that can influence performance by understanding why performance is affected. Third, the field sample includes different employee groups in different departments. Previous studies that looked at internally promoted and externally hired employees tended to use samples from jobs with tasks that did not require creativity or heavy knowledge. Therefore, I use a wider range of occupations to examine the different outcomes that might act as boundary conditions to the main relationship.

2.2. LITERATURE REVIEW

In addition to the literature review in Chapter 1, I include below a literature review that pertains to topics of this chapter that were not included previously.

2.2.1. Middle Manager Human Capital

The decision to hire a middle manager carries both individual-level and unit-level consequences (DeOrtentiis et al., 2018; Hale, Ployhart, & Shepherd, 2016; Hausknecht & Holwerda, 2013). Most leadership-related literature posits that a middle manager's human capital can significantly influence unit and organizational performance (Cellar, Goudy, and O'Brien, 2001; Connelly, Gilbert, Zaccaro, Threlfall, Marks, & Mumford, 2000; Crook et al., 2011; Gerstner & Day, 1997; Judge, Piccolo, & Ilies, 2004; Lowe, Kroeck & Sivasubramaniam, 1996; Osborn & Vicars, 1976). For example, Mollick's (2012) study found that middle managers in the computer game industry accounted for 22% of the variance in revenue. The objective of middle managers is to influence subordinates to achieve goals for the individual, group, or organization. The middle manager's human capital is an important source of this influence (Yukl, 2001). Different human capital measures that influence the impact of the manager's behavior on subordinate outcomes have been identified, including the manager's expertise (e.g. Podsakoff, Todor & Schuler, 1983), competence (e.g. Price & Garland, 1981), gender (e.g. Cellar, Goudy, and O'Brien, 2001; Osborn & Vicars, 1976), and personality (e.g. agreeableness, Cellar, Sidle, Goudy, and O'Brien, 2001).

There is also literature based on social exchange theory (Blau, 1964), which explores the impact of the supervisor-subordinate relationship quality on both individual and organizational outcomes (LMX theory; Graen and Uhl-Bien, 1995). However, this paper focuses on the human capital influence of managers on subordinates in terms of the manager's hiring origin, and though the relationship quality between the two parties is not within the scope of this paper, it is nevertheless an important point to emphasize the impact of middle managers on subordinates.

2.2.2. Subordinate Group

I conceptualize a group of subordinates (subordinate group) as employees that work independent of each other to achieve their goals while supervised by the same manager. Thus, even though they might not share immediate goals, work, or accountability, they share a similar mentoring and control system, wherein the same manager assigns their tasks, provides guidance, gives feedback, and evaluates their performance, making them more homogenous than other employees working under a different manager. While the concept might overlap with teams, teams are composed of three or more individuals working on a specific performance objective, sharing common goals, and similar purpose (Cohen & Bailey, 1997; Guzzo & Dickson, 1996). The team's work activities must be more formally coordinated, and their performance is typically collectively evaluated when compared to workgroup members, which operate more independently from one another.

2.2.3. Social Influence of Hiring Origin

There is rich evidence in a variety of research streams that social influence is a widespread phenomenon in organizations, as demonstrated by studies in social information processing (e.g., Salancik & Pfeffer, 1978, Zalesny & Ford, 1990) and social influence and comparison (e.g., Festinger 1954). Furthermore, social influence has been found to occur even in instances where objective information is available (Klein, 1997). A recent wave in management research highlight the importance of studying the social influence that HR practices and decisions have on employee reactions, behaviors, and performance (Abdulsalam et al., 2018; Ho, 2005; Gubler, Larkin, and Pierce, 2016; Ho and Levesque, 2015; Larkin, Pierce, & Gino, 2012; Maltarich et al., 2017). For example, Abdulsalam and colleagues (working paper) investigated how pay-for-performance (PFP) decisions can influence employees who witness underperforming employees get special treatment. Even though the focal employees are not directly affected by the special treatment, the authors found a significant reaction experienced by the group members after the special treatment that influenced the unit's performance. Larkin, Pierce, and Gino (2012) used social comparison theory to explain how the pay of others can influence agency theory's predictions. Specifically, they propose how psychological costs that occur from comparing others' pay may reduce the efficacy of individual PFP. Ho and Levesque (2005) study how social influence, specifically other coworkers, drives beliefs and evaluations of psychological contract fulfillment of employees.

Research on job promotions gets us close to understanding the social effects of the hiring origin and specifically the costs of internal hiring. For example, because organizations have a continuing relationship with the internal candidates who were not selected for the job promotion, these passed-over individuals may become dissatisfied and turnover from the organization (Spector & Fox, 2010), become envious (Schaubroeck and Lam, 2004), or exemplify counterproductive work behaviors (Lam and

Schaubroeck, 2000). There is also evidence that the number of complaints and grievances related to promotions becomes significantly high (Allen, 1997). This is not a concern with external selection because the organization does not have a continuing relationship with external candidates who are not selected.

Despite the progress, there is still more to learn about the reactions of subordinates who do not directly receive/get denied a promotion but are influenced by the decision. As scholars have deemed internal promotions as high-performance-work practice and shown their effect on firm performance (e.g. Collins & Smith 2006; Delery & Doty 1996; Delaney and Huselid 1996; Guest et al. 2003; Huselid, 1995), it becomes even more important to understand how promotions translate to organizational outcomes. Indeed, these firm-level results point to the fact that job promotions also influence the perceptions and behaviors of other employees in the workgroup. Therefore, it is important to understand the social influence promotions have on other workers, beyond those individual employees who lost/won the tournament. Therefore, this study adds to this stream of research by arguing that the selection decisions related to the manager's hiring origin carry a spillover effect by influencing the perceptions and behaviors of subordinates in the workgroup managed by the newly hired or promoted manager.

Hiring Origin and Unit Outcomes. The social influence of the hiring origin of the middle manager can also be captured by studying unit level outcomes. A scarce number of studies look at unit-level measures that are related to middle manager selection decisions. Below I highlight studies that examine the relationship between the origin of hire and unit-level outcomes.

Using a sample of law firms, Kor and Leblebici (2005) looked at complementary features between external versus internal employees (called origin of hiring of associates) and the firm's strategies (human capital development and geographical strategies) on the firm's profitability. They did not find direct evidence that hiring internal associates is more beneficial to unit performance than hiring external associates. The study did find however an interaction effect, wherein the relationship between the hiring origin of associates and firm performance relied upon the firm's human capital development strategies.

A study by Reilly and colleagues (2014) also used the firm-specific human capital advantage logic when predicting the difference between the immediate effect of hiring rates (external hires) and transfer-in rates (internal hires) on patient satisfaction (their Hypothesis 3c). The study did not find support for the relationship; there is no evidence that there is a difference between external and internal hiring rates on immediate patient satisfaction. However, the study also hypothesized and found that the positive effect of hiring rates on patient satisfaction lasted longer than the positive effect of transfer-in rates that didn't exceed 5 months on patient satisfaction. This was attributed to the idea that external hires have a more innovative perspective than internal hires.

Another study looking at 185 women's Division I basketball coaches over time found that the origin of the new coach (whether insider or outsider) did not matter, as they all had approximately the same subsequent performance results, as measured by team wins (Pierce, Johnson, Krohn, & Judge, 2017). Overall, these results (or lack thereof) suggest that the effect of hiring internal versus external candidates can be more contextually-related.

Among service firms, DeOrtentiis and colleagues (2018) found that the benefits of internally selected and externally hired middle managers depended on whether the unit outcome was measured by a firm-specific or general criterion. Internally hired managers had higher service performance (firm-specific criterion) than externally hired managers, and the two types of managers showed similar financial performance (general criterion). They also found that externally hired managers' unit performance grew faster over time than the performance of internally promoted managers.

2.3. HYPOTHESES

In Chapter 1 of this manuscript, I used signaling theory to argue that a promotion from within is predicted to increase the promoted manager's organizational engagement. However, studies in job promotion literature have focused on the social influence of job promotions, specifically studying the reactions and behaviors of the individuals passed over for a promotion (in other words, qualified employees who were not selected for the job promotion). Because organizations have a continuing relationship with the passed-over employees, inequity perception will likely trigger negative feelings and behaviors, leading to turnover consequences (Spector & Fox, 2010), envy (Schaubroeck and Lam, 2004), and devious work behaviors (Lam and Schaubroeck, 2000) among the passed-over employees. More often than not, there would also be other employees in the unit that do not qualify for the promotion but are indirectly influenced by the decision. It is still unclear how subordinates who do not receive the promotion themselves or do not qualify for the promotion would be influenced by the decision. Therefore, I attempt to increase understanding in this area by studying the influence of the middle manager's hiring origin on his or her subordinate's organizational engagement and job performance ratings.

2.3.1. Hiring Origin & Subordinate Organizational Engagement

In this section, I predict that subordinates would be more engaged if the manager were promoted from within the firm. First, seeing an internal employee promoted signals to the subordinates that the firm values its employees and provides career advancement opportunities. A meta-analytic finding indicated that satisfaction with promotion opportunities in the firm increased organizational commitment (Mathieu & Zajac, 1990; Wayne et al., 1997).

First, seeing an internal employee promoted signals to the subordinates that the firm values its employees and provides career advancement opportunities. A meta-analytic finding indicated that satisfaction with promotion opportunities in the firm increased organizational commitment (Mathieu & Zajac, 1990). Second, knowledge about the firm's policies, procedures, and culture allows a smooth transition to the new job and leading employees. Subordinates will perceive the manager as more competent because he/she has an understanding of the internal dynamics of the firm. This would also allow the leader to perform immediately, as he/she would not need as much time to be accommodated. Third, because internally promoted managers would have a boost in organizational engagement, after the promotion which may be salient in his/her behavior, a spillover effect or contagion may ensue, wherein subordinates would also have high organizational engagement.

Externally hired managers might be perceived as change agents by their subordinates; hence, subordinates would not feel as engaged when rules and policies change. Additionally, externally hired managers would need more time to get accommodated to the new firm, which may frustrate subordinates who usually look to the leader for quick answers to problems. For example, a manager understands the skills and habits of his/her subordinates from day one, he/she would be able to manage and work with them more effectively and efficiently, which would reflect on the subordinate's individual performance. External hires would need more time to understand his/her subordinates' skills, abilities, expectations, and habits.

Hypothesis 5: On average, subordinate groups with an externally hired manager will have lower organizational engagement than subordinate groups with an internally promoted manager.

2.3.2. Hiring Origin & Subordinate Group Performance

Perceptual Congruence. Internally promoted managers had prior experience working in the firm. This means that internally promoted managers and their subordinates would have greater similarity in perception about both the work environment and expected behaviors, in other words, higher perceptual congruence, when compared with externally hired managers. Perceptual congruence between managers and subordinates is important because it influences whether employees would react in an expected manner to decisions. Perceiving the environment congruently allows the subordinate to better anticipate what will be rewarded by the supervisor, and to behave accordingly (Greene, 1972; Wexley et al., 1980). Bowen & Ostroff (2004) and Nishii & Wright (2008) suggest that in order for HR practices to exert their desired effect on employee attitudes and behaviors, they must first be perceived and interpreted by employees. However, because perceptions are subjective, not all employees will interpret the HR practice as intended by the manager. Therefore, there would be variance in the effect of HR practices on employees because of the varied meanings that employees attach to those practices, and because not all employees will interpret the HR system similarly.

Perceptual congruence in how the manager and subordinate interpret the work environment and requirements (including the reward system, the performance evaluation expectations, etc.) would most likely occur between internally promoted managers and their subordinates because they have shared experience in the firm, and thus, would more likely have a homogenous view of the work environment and intangible factors than externally hired managers and their subordinates (Bowen & Ostroff, 2004; Nishii & Wright (2008). Therefore, subordinates are more likely to interpret the environment and act in ways that are in line with their manager's expectations. Congruence of supervisor and subordinate perceptions of the demands and characteristics of the work environment was linked to greater subordinate satisfaction and performance ratings (Bernardin, 1097; Greene, 1972; Turban & Jones, 1988; Wexley et al., 1980). Some studies even found a stronger effect of perceptual congruence than actual demographic similarity between managers and their subordinates (e.g. Murphy & Ensher, 1999; Wexley et al., 1980). Therefore, I hypothesize that because of the high perceptual congruence between internally promoted managers and their subordinates, there would be higher performance ratings of subordinates. Subordinates of externally hired managers tend to have a hard time interpreting the environment and HR practices in the same way as intended by the external manager. Therefore, internally promoted candidates not only have firm-specific knowledge beneficial for his/her performance, they also influence their subordinates by having perceptual congruence, which is necessary in order for HR practices to exert their desired effect on employee attitudes and behaviors.

Hypothesis 6: On average, subordinate groups with an externally hired manager will have lower performance than subordinate groups with an internally promoted manager.

2.3.3. Hiring Origin, Subordinate Group Organizational Engagement, & Creative Function

Putting the right middle manager in the right place is key not only to achieve positive individual outcomes, but also to achieve positive collective outcomes. Therefore, it is important to understand the conditions under which one origin of hiring might influence subordinates more/less positively than the other. I propose that in job functions requiring creativity (moderator), externally hired managers might exceed internally promoted managers in their influence on subordinates' organizational engagement and performance. I argue that subordinates of externally hired managers will be more organizationally engaged than subordinates of internally promoted managers in creative job functions. This is because of two reasons: opportunity to learn and having a supportive environment.

Subordinate Learning. Unlike internally promoted individuals, external hires are less likely to experience more or different kinds of responsibilities from their previous positions as they are most likely to be hired in a position that has the same level/job title in the hiring firm than in their previous firm (Bidwell and Mollick, 2015; DeVaro, Kauhanen, & Valmari, 2019). Because external hires typically originate from the same job position/level they had in the previous firm, external hires would have higher occupation-specific or task-specific capital when compared with internally promoted hires (Kambourov and Manovskii 2009; Gathmann and Schonberg 2010), which information is portable across firms (Cassidy, 2017;Kambourov & Manovskii

2009; Gathmann & Schönberg, 2010). With creative and knowledge-based job functions, an externally hired manager with occupational specific human capital would be perceived by subordinates as more capable than firm specific human capital. Not only do externally hired managers bring new ideas to the table that contribute to their individual performance, they also add new and unique knowledge, skills, and abilities to the unit. The knowledge external hires possess seems scarce and unique, which heightens its perceived value (Cialdini 2001). This learning opportunity allows subordinates to gain advantage over other employees (from the internal and external labor market), in terms of personal self-enhancement and learning, which would increase their organizational engagement. Subordinates would be organizationally engaged and motivated to learn from the external managers in order to compete in the market without facing costs, and their value would increase if they decide to find a new job. This is especially true given the fact that when hiring external employees, firm tend to choose individuals with high occupational expertise. On the other hand, firms train internally promoted managers into the new role, and while they have firm specific skills, occupational expertise would come over time; this means that both the manager and the subordinate will be learning, and the subordinates would not perceive the manager as an expert.

Supportive Environment. One of the benefits of external hires is that they are often more objective and less emotional about tough decisions, making their perception by their subordinates seem fairer when compared to a manager with social capital in the firm who might be accused of carrying some bias. This is especially important in creative functions, wherein diverse ideas, conflicts, and problem-solving are keys to succeed. Therefore, the external manager is more likely to foster an innovative climate and supportive environment where subordinates can make a contribution. This, in turn, would increase their organizational engagement.

Hypothesis 7: Job function will moderate the relationship between manager hiring origin and subordinate group organizational engagement such that on average, subordinate groups with an externally hired manager will have higher organizational engagement than subordinate groups with an internally promoted manager in creative functions.

2.3.4. Hiring Origin, Subordinate Group Performance, & Creative Functions

Employee creativity, defined as developing products and processes that are both novel and useful (Amabile, 1988), is found to be an important determinant for organizations to compete in the marketplace (Zhou & Shalley, 2010). Since creativity is, in part, the result of social processes, middle managers can have a noteworthy effect on employees' creativity (Amabile & Pillemer; Byrne, Mumford, Barrett, & Vessey, 2009; Amabile, Schatzel, Moneta, & Kramer, 2004; Shalley, Zhou, & Oldham, 2004). I argue that the middle manager's hiring origin represents a particularly powerful influence. Specifically, I propose that subordinates of externally hired managers will have higher performance ratings when in creative job functions.

Leading employees to perform more creatively is often different from traditional leadership approaches, because creativity requires a unique set of conditions, such as having tolerance for failure and a supportive environment (Vessey, Barrett, Mumford, Johnson, & Litwiller, 2014). Because external hires typically originate from the same job position/level they had in the previous firm, external hires would have higher occupation-specific skills in a creative environment when compared to internally promoted hires (Kambourov and Manovskii 2009; Gathmann and Schönberg 2010). Occupation-specific skills are the general skills and expertise required to perform a particular job, regardless of the firm. Hence, unlike firm-specific skills, occupation-specific skills are portable across firms (Gibbons and Waldman 2004, 2006; Kambourov and Manovskii 2009; Gathmann and Schönberg 2010; Cassidy 2017). Although many variables influence creativity and innovation (Mumford, Scott, Gaddis, and Strange, 2002), a literature review by Mumford and colleagues (2002) which examined leadership behaviors contributing to creativity and innovation in organizational settings found that leadership of creative people requires, most importantly, expertise. Thamhai and Gemmill (1974) looked at project managers in an electronic company and found that managerial expertise was associated with higher project manager performance ratings, as well as a climate of involvement and willingness to disagree, both crucial mechanisms of a successful creative environment.

The externally hired manager would have the occupation-specific skills and expertise needed for performance in creative environments when compared with internally promoted managers. For example, a supervisor with creative problem-solving skills was found to be capable of giving better feedback, was perceived as a role model for creativity, and was viewed as more credible (Mumford and colleagues, 2002). Also, Reiter-Palmon and Illies (2004) argued that a supervisor's own creative skills were significant to the subordinates' creative problem-solving. A creative mentor has been found to positively impact individuals' creative development during their careers (Simonton, 1975; Torrance, 1988). Additionally, creative supervisors who can recognize and define problems in novel and useful ways can set specific creativity expectations and goals for their subordinates, which can facilitate their employees' creativity (Hemlin & Olsson, 2011; Mainemelis, Kark, & Epitropaki, 2015; Mumford, Connelly, & Gaddis, 2003; Shalley, 1991). Supervisors with higher levels of creativity set higher creativity expectations for their employees, and tolerated mistakes made by subordinates during the idea-creation stage of a project (Huang et al., 2016). Findings by Jaussi & Dionne (2003) also suggest that subordinates who perceive their leader as a role model for creativity displayed more creativity when the leader showed new/unconventional behavior.

Additionally, there is evidence that employee perceptions of the work environment created by their team leaders and, in particular, their perceptions of knowledge support, relate to employee creativity (e.g., Oldham & Cummings, 1996, Scott & Bruce, 1994). This is especially true, as subordinates would have higher competence perceptions towards a new manager in a creative environment than toward an internally hired manager. Therefore, while internally promoted managers may have an initial advantage over externals by seeing eye-to-eye with subordinates, the occupation-specific expertise of the external hire will drive employees to perform better in environments where creativity is essential. Because of the unique features of creatively demanding functions, a leader with occupation-specific expertise would be more positively influential on his/her subordinates than one with firm-specific skills.

Hypothesis 8: Job function will moderate the relationship between manager hiring origin and group performance such that on average subordinate groups *with an externally hired manager will have higher performance than subordinate groups with an internally promoted manager in creative functions.*

2.4. METHODS

2.4.1. Sample and Variables

The data for this study was the same as that in Chapter 1, except that in this chapter, I am only interested in the outcomes of the subordinates of newly hired managers (internal or external hires). Please refer to Chapter 1 for a detailed description of the sample.

Please refer to Chapter 1 for the list of variables. The only difference is the sample used (outcomes of subordinates), otherwise, I utilized the same scales and proxies to test the hypotheses. Because the data is nested and the independent variable is a unit property, the coefficients in the results will represent the response/output of the average individual subordinate in the workgroup. I then validate the measures using intra-class correlation coefficient (ICC) values, which test how much of the variability in individual responses can be predicted by workgroup membership or the manager.

2.4.2. Analytical Approach

My hypotheses focus on comparing the responses of subordinate groups toward their newly hired manager. To examine these changes, my approach mirrors the one used in Chapter 1, but in this case, I measured the responses of the average individual within the group (subordinate group) rather than of the hired manager. The intraclass correlation coefficients (ICC) were 0.10 (performance) and .13 (organizational engagement). In conclusion, the model that allows for random intercept variation in the dependent variable is better than a model that does not allow for this random variation.

2.5. RESULTS

Descriptive statistics and correlations are presented in Table 2.1. Overall, the sample included around 2,100 subordinates nested under around 460 middle managers who were hired sometime within the three-year period of the sample. Of those middle managers, 115 were externally hired and the rest were promoted from inside the firm.

Hypothesis 5 predicts that subordinates with internally promoted managers will have higher organizational engagement than externally hired managers. The results are presented in Table 2.1, Model 2. The relationship was significant (*b* = -0.14; *SE* = 0.06; $p<0.05$) supporting Hypothesis 5. This means that internally promoted managers had on average higher organizational engagement than the average individual subordinate managed by an externally hired manager.

Hypothesis 6 proposes an interaction effect of this main relationship, wherein I argue that in creative functions, subordinates of externally hired managers would be more engaged. Table 2.1, Model 3 shows that the prediction was not supported (*b* = -0.10; *SE* = 0.08; *n.s.*). Model 3 shows that the relationship was not significant, failing to support Hypothesis 2.

Hypothesis 7 and 8 make predictions about performance outcomes of subordinates. Hypothesis 7 states that subordinates of internally hired managers would perform better in general, but when in a creative environment, externally hired managers might be better able to lead their team and reflect on their performance. The results for both these hypotheses are presented in Table 2.2, Models 2 and Model 3. Both results were not significant, failing to support Hypothesis 7 (*b* = -0.04; *SE* = 0.04; *n.s.*) and Hypothesis 8 (*b* = -0.05; *SE* = 0.05; *n.s.*).

2.6. DISCUSSION

In this chapter, I pursued understanding the social influence of hiring decisions in terms of manager origin. Specifically, this study focuses on the average subordinate group performance and attitudes within the middle manager's first year of hire. I attempted to make a theoretical contribution and add to the "make vs buy" scholarly conversation by taking into account subordinates, who have been rarely studied, yet are heavily influenced by their manager's knowledge and skills. Their initial reactions get us close to understanding the perception of employees with regard to different facets of human capital. Second, I use survey data to capture the psychological states of employees beyond performance measures, which has been the focus of past studies. Studying affective reactions is a valuable and rare opportunity that can further inform the field of study. The sample includes different employee groups in varied departments. Previous studies that examined internally promoted and externally hired employees tended to use samples from jobs with tasks that generally did not require a heavy knowledge-base or creativity (e.g. financial and retail-service jobs). Therefore, I use a wider range of occupations to examine the different outcomes that might act as boundary conditions to the main relationship.

The insignificant results failed to support my theory, which relied on the idea that occupational skills would be more valuable than firm-specific knowledge in environments where creativity and innovation are evaluated in a lagged manner. However, there were several lessons that might add to the "make vs. buy" conversation. It seems that the firm-specific human capital the middle manager possesses influences subordinates more positively than the externally hired manager with occupational skills.

However, it is worth further exploring the changes in behaviors and attitudes of subordinates. Such a prediction would revolve around predicting the relevant changes that might occur as opposed to the absolute changes (e.g. Lang & Bliese, 2016); modeling the time the manager is hired as an event and showing how the subordinates outcomes changed post-event compared to pre-event.

Table 2.1: Descriptive Statistics and Pearson Correlations of Chapter 2

Variable	Mean	SD	1	2	3	4	5	6	7	8
1. Org. Engagement	4.03	0.77								
2. Performance	2.91	0.74	0.10*							
3. External Manager	0.25	0.43	-0.06*	-0.02						
4. Country USA	0.51	0.50	-0.04	-0.13*	-0.05*					
5. Group Size	25.91	10.78	0.04*	-0.03	0.05*	-0.03				
6. Creative Function	0.31	0.46	-0.06*	0.02	0.12*	0.12*	0.03			
7. Manager Female	0.37	0.48	0.03	-0.03	-0.03	0.08*	-0.05*	0.00		
8. Manager Age	45.19	6.60	-0.01	0.00	0.05*	0.19*	0.06*	0.25*	0.05*	
9. Manager Tenure	8.50	2.87	0.02	-0.12*	-0.55*	0.02	-0.01	-0.11*	0.11*	-0.07*
10. Female	0.52	0.50	-0.01	0.04*	0.05*	-0.04*	0.01	0.06*	0.10*	-0.05*
11. Age	43.22	5.55	-0.01	-0.11*	-0.05*	0.4*	0.06*	0.06*	0.02	0.35*
12. Tenure	8.82	8.56	-0.02	-0.09*	-0.07*	0.15*	-0.01	-0.04*	-0.04	0.11*

N= 481 subordinate groups.
* p < .05.

Table 2.1 (continued): Descriptive Statistics and Pearson Correlations of Chapter 2

Variable	9	10	11
10. Female (0/1)	0.00		
11. Age	0.03	-0.11*	
12. Tenure	0.03	-0.13*	0.35*

N= 481 subordinate groups.
* p < .05.

Table 2.2: Random Coefficient Model Analyses Predicting Managerial Hiring Origin and Subordinate Group Organizational Engagement

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	3.81 ***	0.22	3.89 ***	0.22	3.80 ***	0.22
Country USA (1/0)	-0.16 ***	0.05	-0.15 **	0.05	-0.13 *	0.05
Group Size	-0.02	0.05	-0.03	0.05	-0.03	0.05
Creative Function (1/0)	-0.00	0.00	-0.00	0.00	-0.00	0.00
Manager Female (1/0)	-0.09	0.05	-0.09 *	0.05	-0.09	0.05
Manager Position Grade	0.04 ***	0.01	0.04 ***	0.01	0.04 ***	0.01
Manager Age[2]	0.06	0.04	0.07	0.04	0.07	0.04
Manager Tenure[1,2]	0.00	0.00	0.00	0.00	0.00	0.00
Female (1/0)	-0.06	0.06	-0.09	0.06	-0.07	0.06
Age[2]	-0.00	0.00	-0.00	0.00	-0.00	0.00
Tenure[1,2]	0.00	0.00	0.00	0.00	0.00	0.00
Position Grade	-0.00	0.00	-0.00	0.00	-0.00	0.00
Manager External (1/0)			-0.14 *	0.06		
Manager External x Creative Function					-0.10	0.08
Random Effects						
σ^2	0.52		0.52		0.52	
τ_{00}	0.07		0.07		0.07	
ICC	0.12		0.11		0.12	
N	481		481		481	
Observations	2292		2292		2292	
Marginal R^2 / Conditional R^2	0.021 / 0.136		0.024 / 0.136		0.021 / 0.136	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed
[2] Centered to the mean

Table 2.3: Random Coefficient Model Analyses Predicting Managerial Hiring Origin and Subordinate Group Performance

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*SE*	*Estimates*	*SE*	*Estimates*	*SE*
Intercept	2.08 ***	0.15	2.10 ***	0.15	2.07 ***	0.15
Country USA (1/0)	0.01	0.03	0.01	0.03	0.03	0.04
Group Size	1.03 ***	0.03	1.02 ***	0.03	1.02 ***	0.03
Creative Function (1/0)	-0.01 **	0.00	-0.01 **	0.00	-0.01 **	0.00
Manager Female (1/0)	-0.10 **	0.03	-0.10 **	0.03	-0.10 **	0.03
Manager Position Grade	0.03 ***	0.01	0.03 ***	0.01	0.03 ***	0.01
Manager Age[2]	-0.04	0.03	-0.04	0.03	-0.04	0.03
Manager Tenure[1,2]	0.00	0.00	0.00	0.00	0.00	0.00
Female (1/0)	1.10 ***	0.04	1.09 ***	0.04	1.09 ***	0.04
Age[2]	-0.00	0.00	-0.00	0.00	-0.00	0.00
Tenure[1,2]	-0.00	0.00	-0.00	0.00	-0.00	0.00
Position Grade	0.00	0.00	0.00	0.00	0.00	0.00
Manager External (1/0)			-0.04	0.04		
Manager External x Creative Function					-0.05	0.05
Random Effects						
σ^2	0.31		0.31		0.31	
τ_{00}	0.02		0.02		0.02	
ICC	0.05		0.05		0.05	
N	467		467		467	
Observations	2121		2121		2121	
Marginal R^2 / Conditional R^2	0.423 / 0.451		0.424 / 0.451		0.423 / 0.451	

* *p<0.05* ** *p<0.01* *** *p<0.001*

[1] Log-transformed
[2] Centered to the mean

CHAPTER 3: PRACTICAL IMPLICATIONS & FUTURE RESEARCH

3.1. PRACTICAL IMPLICATIONS

This study contributes to practical managerial selection decisions when it comes to understanding the strategic opportunities and gains of hiring the right people in the right places. As firms are currently hiring employees and building pipelines simultaneously without understanding the real consequences modelled in the research and without theoretical guidance, losses from their decisions will surely reflect on their bottom line. For example, Keller & Bidwell (2015) found that managers are actually the wrong people at the wrong place; most jobs requiring firm specific skills were filled with employees with general skills and vice-versa. The consequences also have spillover effect on other employees in the unit. As I found in Chapter 2, employees feel organizationally attached if their manager is internally promoted. Therefore, managers must work with scholars to join the conversation in order to better understand the hiring decisions that may seem irrational, but may, in fact, be wise in certain situations (e.g. hiring external employees and paying them more), as in the case for my theoretical story about creative environments. In general, my research helps in understanding how to strategically manage employee modes in order to build successful talent pipelines by learning about the contingent factors that influence the behaviors and outcomes of newly hired middle managers as well as their subordinates. I address these questions by using three years of survey data from a publically traded company to test my predictions.

3.2. LIMITATIONS & FUTURE RESEARCH

When interpreting the results of this study, I noted several limitations that should be considered. First, I tested the hypotheses with data from a single company, which limits the generalizability of the findings. To the extent that the factors influencing the hiring origin in this study are idiosyncratic to the firm's industry or the particular organization sampled, the results presented here may not generalize to other settings. To some extent this concern was mitigated by sampling differing locations, departments, and job functions. However, future research should explore how the results from this single organization generalize elsewhere. Second, I assumed that all the jobs in the department sampled and labeled "creative function" involve creativity as a performance criterion. In the future, one can break down this proxy by examining the job titles within the function, extract the job description for each title, and utilize a word-recognition software to mark when creativity and innovation-related words are mentioned in the description. This strategy can also be applied to the other departments that were labeled as "other functions" where some jobs might have creativity as a performance criterion. The jobs could further be ranked in a scale from high to low creativity, rather than a dichotomous variable.

Third, while I controlled for human capital, it would be interesting to explore the interactions between the human capital of managers and their subordinates. Borrowing from the human capital literature, researchers might explore an ideal combination between the hiring origin of managers and that of subordinates —for example, predicting whether diversity in the hiring origin of managers and his/her subordinates (e.g. an internally promoted manager and an externally hired employee) would help inform the complementary assets that the firm could build through their hiring decisions.

Fourth, I made some assumptions that could be investigated further. First, I assumed that the firms had a choice between employing external or internal hires; in other words, they were not employing external hires to fill a need that could not be found in the firm. I also assumed, using statistical evidence from previous studies, that external hires are assigned to a position in the hiring firm that is equivalent to their position and job level in the previous firm (horizontal hiring). A study with data with employees' job history would produce more robust findings when asserting whether the new hires were employed from the same job level or promoted in the new firm. Additionally, it would make a difference whether internally promoted employees were promoted to manage the same group they were working with previously, or were assigned to manage a different group.

CONCLUSION

There is practical complexity in organizational settings when studying the benefits of externally hired versus internally promoted middle managers. My theory highlights the complex nature of hiring decisions by integrating psychology and economic rationale, as well as the creativity and innovation literatures, to propose key contingencies that help answer the question: When should firms hire external middle managers versus promote internal middle managers to achieve beneficial outcomes? I suggest that in creative environments, firms are better off hiring external managers because of the time-lag nature of the requirement and outputs in that environment. I also theorized in a relevant yet understudied avenue related to the social influence of HR decisions, specifically the hired middle manager's origin on subordinate group engagement and performance.

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