



boyden **Food For Thought Series**

Internal vs. external candidates: Who is the better choice?

WHY and when is it preferable to hire an external candidate rather than an internal candidate, and vice versa? We see that most executives in the Danish C20 companies are internal candidates who excel and move up the ladder in the hierarchy (Børsen, 2015). What explains this tendency? And what are the pros and cons of promoting internal candidates compared to hiring candidates from outside?

For various reasons internal candidates coming from another position within the company, seem to be favoured among bigger companies. Factors such as stability, smooth integration, as well as knowledge of the firm and its culture work in favour of choosing an internal candidate. However, in certain situations, there are distinct advantages to choosing an external candidate based on the company's situation and strategy.

Often the choice can be a matter of options

When recruiting for executive positions, the biggest companies generally have more opportunities for sourcing qualified candidates internally from the existing talent pool. Smaller companies on the other hand may simply not

have appropriately skilled internal candidates to take on top leadership roles. They must look to the talent market for external candidates.

Larger companies may have a deeper internal pool from which to draw qualified candidates; however, internal candidates are not necessarily always preferable to external candidates. It depends on the specific position as well as the company's situation relative to other opportunities in the market.

In cases where knowledge of the company, its culture and current challenges is particularly crucial to the role, internal candidates may be preferable, and to some extent better able to "*hit the ground running*". But if the company is engaged in major important changes such as M&As, internationalization or listing activities, or needs a complete turnaround or radical shift, an external candidate may be the best choice.

External candidates bring important new perspectives, competencies and experiences to the table that internal candidates may not possess. They are better able to challenge old beliefs and entrenched behaviours that could otherwise jeopardize the success of a turnaround or other challenging endeavour.

Internal vs. external candidates

Another point to consider is that regardless of a company's size, the availability of suitable and sufficiently skilled internal candidates for senior positions will be more limited than the external market supply. Hence, when recruiting for a senior position, it is important to ask whether the internal candidate is a better fit for the job than any of the numerous available candidates the market has to offer.

In deciding whether to include an internal candidate on the roster of potential candidates for a position, there is a risk worth noting. By actively choosing to take part in the assessment process, an internal candidate demonstrates that he or she is looking for new challenges outside a current position.

If ultimately an external candidate is hired, there can be fallout. The internal candidate may be disappointed or resentful at being displaced from the competition by an outsider. This ill will can motivate them to look for a new opportunity elsewhere and potentially resign.

That said, hiring the internal candidate can yield key advantages. In addition to the candidate already having an insider's knowledge of the company, its employees and culture, the recruitment and onboarding process will be quicker. There is greater stability and less risk, as the candidate is already known, and often will possess important knowledge regarding the organisation's strategy and goals from the start.

But to make another comparison, an external recruit can bring valuable knowledge transfer and enhanced innovation power. Looking outside the company also increases the odds of a close match between the position and a candidate's profile.

Factors contributing to candidate selection

Other benefits include increased possibilities for gaining a competitive edge and new, relevant and potentially critical experience. A company should be aware that recruiting externally will require more resources. Yet such an investment can prove vital to success when navigating the complexities of a turnaround, internationalization or listing agenda. The same can be said of an aggressive growth strategy, and many other scenarios.

Needless to say, there are a number of factors to consider. The choice of either an internal or external candidate must be assessed with the prospective opportunities and challenges in mind, as well as the candidate's objectives.

Boards and top executives must be aware that there is no single correct answer. The optimal search strategy depends entirely on the company's business strategy and specific situation.



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