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TenStep Supplemental Paper

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Buying vs. Breeding

Getting the right people to do the right job is the guiding philosophy of hiring procedures.

However, managers also acknowledge the need to identify the right hunting ground for talent. For instance, when hiring a creative head in a recruitment advertising firm, hiring managers should shortlist a couple of advertisement giants who deal with online advertisements and newspaper advertisements. Looking for creative managers in the corporate communications department of a company hardly serves the purpose.

It may sound really elementary in view of the strategic role that hiring plays today. However, human resources specialists believe it is the mistakes that happen at elementary level that go on to play the monster later on. Bad recruitments manifest as high employee turnover and low employee morale. In addition, the problems branch into their functional areas as well. Hence, plugging the loopholes in time can help minimize the risk of failure.

The need to have a competitive hiring process is rather urgent today. The corporate landscape has undergone a sea of change, with technology dominating the mainframe. Technological firms together make up for almost twenty-five percent of world employment. This technological invasion has brought a different set of hiring challenges. One of the most daunting ones is whether to develop in-house talent or hire skilled workers? This dilemma is well understood in an industry like IT where technology becomes obsolete even before one becomes familiar with it.

Skills in the IT industry thus have to be fine-tuned at frequent intervals. Hence, training executives to adapt to these changes may not be cost-effective. In a technology-driven environment where things move rather fast and product-life cycles get shortened every six months, there is little wisdom in developing in-house talent. The short shelf life of skills and expertise in the IT industry has left most HR managers looking for cost-effective and timesaving hiring solutions.

According to Benjamin Campbell, a Wharton management professor, his work on the effect of HRM practices and R&D investment on worker productivity has successfully chalked out a clear account of hiring strategies spelling when industries in cutting-edge technology should seek external talent and when they should develop it in-house.

Campbell's study also emphasizes how technology and HR strategies compliment each other. HR provides the skills while technology provides the opportunity to use these skills. Further, Campbell also reinforces the fact that as in the case of any other management strategy or initiative, the CEO should largely drive hiring processes in high-tech firms.

The Technology of Hiring

The develop vs. buy dilemma can be better understood as we go through different scenarios and product-life cycles of technology industries. For instance, companies in the semiconductor industry like NVIDIA, ATI Technologies and VIA Technologies develop new products in a time span as short as six months. Between six and twelve months these companies bring a new product. Such companies would benefit little from developing in-house talent. They would rather hire external talent.

On the other end of the continuum are companies like Bosch and Delphi-Delco that manufacture chips for automotive components. These companies have rather long product cycles lasting for almost four years before any new product comes out. Such companies can develop in-house talent. Training employees in these companies can prove to be highly cost-effective obviating the need to hire external talent.

Apart from the two scenarios depicted through fast and slow pace of business, there is a third case where companies like Hewlett Packard that were known for long product cycles and developing employees through years to meet the business needs.

However, a research on the business model and hiring strategies of HP reveals that the giant has moved away from in-house development and is now heavily relying on spot markets or external labor markets. In addition to these three factors, Campbell reinforces the need to balance compensation, employee experience and skills required in order to frame a fair and successful hiring strategy. Aligning these three components is critical to the success of an organization's HRM systems.

Final Analysis

Having understood the conundrum of make versus buy in high-tech firms, it is important to dwell on factors that would play a critical role in aligning the technology and HR strategies. Campbell's research on the paper indicates that product cycle and R&D spending are two critical factors in determining the success of hiring strategies. The relationship between the two factors can be well understood.

A company that has short product cycles would have greater R&D spending, while companies with longer product cycles spend less on R&D. This also suggests that longer product cycles rely on experienced talent while short product cycles rely on new skills. Similarly, firms with high R&D spending are more likely to invest in newer skills than low R&D oriented firms. Thus, companies need to first get their experience-skill equation right before deciding on the best way to acquire talent.

Campbell's research is based on intense analysis of HRM systems and parameters like worker productivity, performance incentives, employee turnover and points of entry into the workforce. It also dwells into the variance in educational qualification, accession rate, wage appreciation of workers and earnings growth. Apart from these factors, through his research Campbell listed four HRM systems that organizations relied on to come out of the in-house or external talent dilemma.

These include:

- Bureaucratic ILM (internal labor markets) characterized by low wage variance, low separation rate and reliable earnings growth

- Performance-based ILM characterized by high wage variance, high separation rate and variable earnings growth
- Spot markets characterized by high initial earnings variance and high separation rates. There is a negligible increase in pay with tenure. (Workers are inducted from external market hence initial wages are in line with industry standards)
- Rewards in spot markets characterized by low initial earnings that increase with the tenure. Separation rate is higher as the chances of bad hires are high in this case.

Campbell's research provides a better insight to the make versus buy dilemma. In today's technology driven corporate world, organizations need to have a clear account of the actions they would take in different circumstances. Wrong decision-making in functions as strategic as hiring can sabotage the very objective of performance and talent management.