

Consequences of Centralizing Hiring at a Retail Chain



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Many executives consider that employee selection is a key mechanism to align employees to company goals




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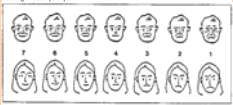
Research Studies Emphasize The Benefits of Carefully Selecting Employees

Employees whose values are compatible w/the firm's at hiring...



... experience higher job satisfaction

Consider all aspects of your job. Circle the face which best describes your feelings about your job.



... are less likely to leave

... create greater value when exercising discretion

(Chatman ASQ 1991, Campbell JAR 2012)

Firms put more emphasis on selection where it is difficult to align goals through incentive contracts.
(Akerlof and Kranton QJE 2000, Prendergast AER 2008, Abernethy, Dekker and Schulz JAR 2015)

➤ Yet, prior research is silent about who should hire employees

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Research Partner

- Large retail chain operating small format stores in multiple states in the U.S.
- Switched from a completely decentralized hiring system to centralized hiring in a staggered manner over several years.

% stores switching



quarters

Note: Illustrative graph, not reflecting exact pattern (due to lack of access to all data)

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Research Questions

- 1) What are the main effects of switching from decentralized to centralized hiring on employee turnover and store performance?
- 2) What store-specific factors influence these effects?

Effect of Centralized Hiring

We set out to test whether the benefits exceeded the costs of centralized hiring...



What Store-Specific Factors Could Lead to Different Effects of Centralized Hiring on Turnover and Performance?

Centralized Hiring Could Have a Positive Effect Where There Are Greater Potential Gains From....

...Alignment

- Stores where performance can be enhanced through company standards
- Geographically distant stores that could be better aligned to company goals

...Efficiencies

- Offload hiring from managers operating busy stores

Measures Used

- **Relevance of brand standards:** Corr(store's sales, mystery shopper scores)
- **Distance to headquarters:** Distance between HQ & store
- **Busy Operations:** Monthly store sales/labor hrs

Centralized Hiring Could Have a Negative Effect Where ...

...Store Managers Are Likely to Have an Informational Advantage Relative to the Head Office

- Stores operating in divergent markets
- Stores with long term customer relations including
 - repeat customers, and
 - service-sensitive customers
- Stores where the manager knows the team well

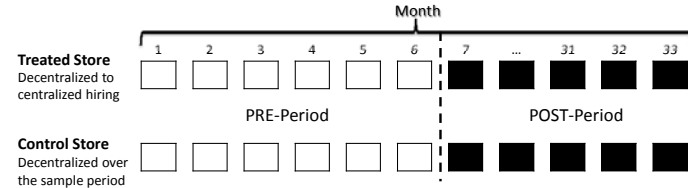
Measures Used

- **Market Divergence:**
Difference between store location's demographics* and the chain's average
- **Repeat Customers:**
= 1 if store is located in rural area, at least 2 miles away from a highway exit
- **Service-sensitive Customers:**
= 1 if store is located in high income area (top quartile PCI in the chain)
- **Store Manager Knows Team:**
= 1 if the store manager had been at the store 16+ months

*Demographics included: Population density, income, age, ethnicity (% whites), and household size

Research Data

- 33 months of hiring and store performance data (from January 2013 to September 2015) including stores in 3 states.
- We matched each treatment store to a comparable control store based on initial (month 1) store characteristics using propensity score matching.



- **Final Sample:** 1,497 hires and 2,537 store-month observations with complete data from 49 treatment and 49 control stores

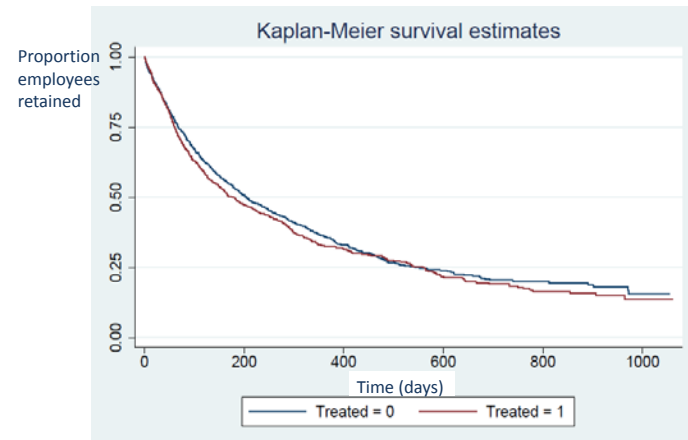
Regression Models

Test of the overall effect of switch to centralized hiring (treated)

$$\begin{aligned}
 \text{Outcome} = & \beta_0 + \beta_1 \text{Treated} + \beta_2 \text{Post} \times \text{Treated} \\
 & + \beta_3 \text{Busy Operations} + \beta_4 \text{Relevance of Brand Standards} \\
 & + \beta_5 \text{Distance to Headquarters} + \beta_6 \text{Market Divergence} \\
 & + \beta_7 \text{Store Manager Knows Team} + \beta_8 \text{Repeat Customers} \\
 & + \beta_9 \text{Service-Sensitive Customers} + \beta_{10} \text{Unemployment Rate} \\
 & + \beta_{11} \text{New Format Store} + \beta_{12} \text{Team Size} + \beta_{13} \text{Promotion Opportunities} \\
 & + \beta_{14} \text{Percentage Full Time Employees} \\
 & + \beta_m \text{(Month-Year Fixed Effects)} + \beta_n \text{(State Fixed Effects)} + \varepsilon
 \end{aligned}$$

Outcome	Model Used
• Rate of Departures	Hazard Rate Model
• Store Sales (natural logarithm)	OLS Model
• Store Mystery Shopper Scores	Tobit Model

Similar Rates of Departure Among Stores That Switched vs. Did Not Switch to Centralized Hiring



Effects of Centralized Hiring

- On average, the effects of centralized hiring (*Post x Treated*) on **employee departures, monthly store sales, and mystery shopper scores** are insignificant!
- But some effects “kick in” after 20+ employees in the store are hired centrally. In that case, centralized hiring is associated with a **↓25% rate of employee departures** but not with any changes in performance.

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Did Any Store-Specific Factors Influence the Effects of Centralized Hiring on Employee Departures and Performance?

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Regression Model

Tests of moderators of the effect of centralized hiring

$Outcome = \beta_0 + \beta_1 Treated + \beta_2 Post \times Treated$
 $+ \beta_3 Busy\ Operations + \dots + \beta_{10} Treated \times Busy\ Operations + \dots + \beta_{17} Post \times Busy\ Operations + \dots$
 $+ \beta_{24} Treated \times Post \times Busy\ Operations$
 $+ \beta_{25} Treated \times Post \times Relevance\ of\ Brand\ Standards$
 $+ \beta_{26} Treated \times Post \times Distance\ to\ Headquarters$
 $+ \beta_{27} Treated \times Post \times Market\ Divergence$
 $+ \beta_{28} Treated \times Post \times Store\ Manager\ Knows\ Team$
 $+ \beta_{29} Treated \times Post \times Repeat\ Customers$
 $+ \beta_{30} Treated \times Post \times Service-Sensitive\ Customers$
 $+ \beta_n (Control\ Variables) + \beta_n (Month-Year\ Fixed\ Effects)$
 $+ \beta_o (State\ Fixed\ Effects) + \varepsilon$

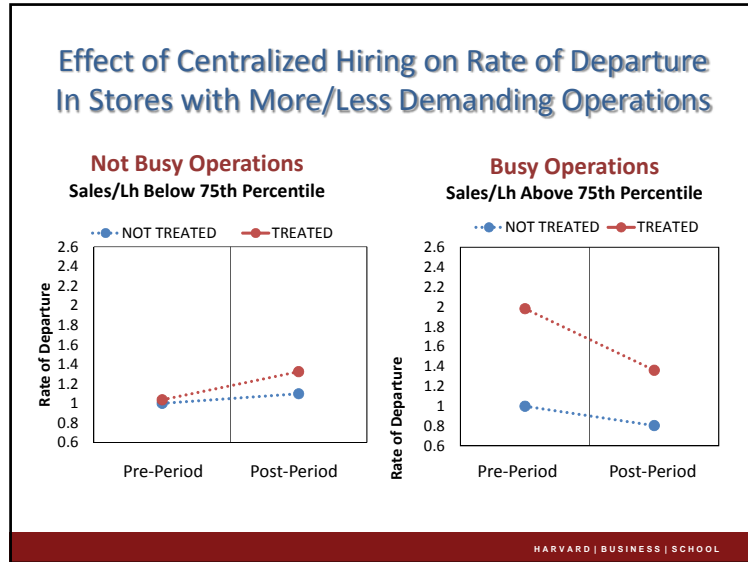
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Effects of Centralized Hiring Contingent on Store-Specific Factors

Employee Departures

- Centralized hiring results in a lower rate of employee departure in **more busy stores**.

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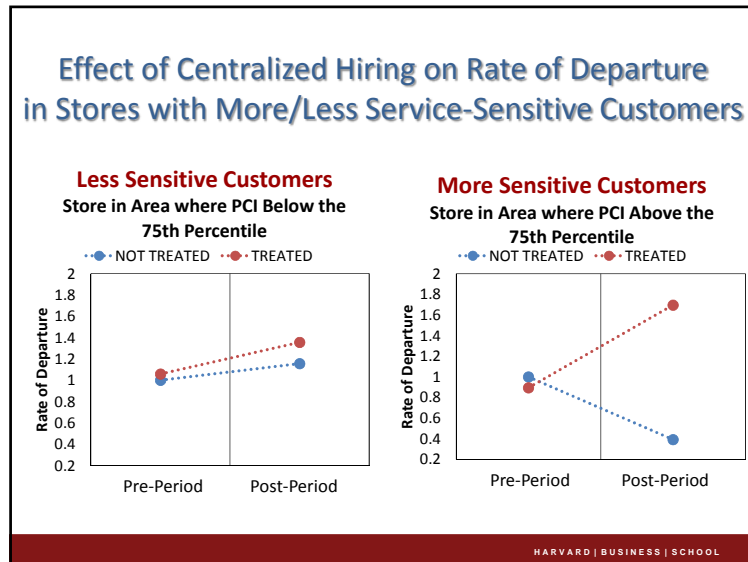


Effects of Centralized Hiring Contingent on Store-Specific Factors

Employee Departures

- Centralized hiring results in a lower rate of employee departure in **more busy stores**.
- Centralized hiring results in a higher rate of employee departures when the store serves **service-sensitive customers**.

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Effects of Centralized Hiring Contingent on Store-Specific Factors

Employee Departures

- Centralized hiring results in a lower rate of employee departure in **more busy stores**.
- Centralized hiring results in a higher rate of employee departures when the **store serves service-sensitive customers**.

Store Performance

- Centralized hiring is associated with greater sales in **distant stores**: 1% increase in sales/additional 10 miles away from HQ
- Centralized hiring is associated with lower performance where customer relations may be important:
 - 7.3% decrease in sales if **store serves service-sensitive customers**.
 - 0.04 point decrease in (0-1) mystery shopper score scale when store **serves repeat customers**.

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Conclusions

- We find no evidence that centralized hiring, on average, is associated with the rate of employee departure (neither voluntary nor involuntary departures) or store performance.
- Yet, centralized hiring seems to lead to a lower rate of employee departures after ~20 employees at a store have been centrally hired.
- Generally speaking, our results are consistent with expected benefits & costs of centralized hiring.

Theoretical Prediction	Empirical Results
	Centralized hiring is associated with a...
<u>Benefits:</u> In stores with greater potential gains in efficiencies & goal alignment	... Decrease in departures in <u>busy stores</u> ... Increase in sales in <u>distant stores</u>
<u>Costs:</u> In stores where store managers are more likely to have an informational advantage over headquarters	... Increase in departures & decrease in sales in stores with <u>service-sensitive customers</u> ... Decrease in mystery shopper scores in stores with <u>repeat customers</u>

Thank you!