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What costs more but often works worse? Outside hires.

Fueled by a conviction that there's plenty of talent in their ranks and backed by research showing that hiring outsiders can lead to costly missteps, firms are ramping up internal hiring efforts and investing in new career sites to boost intra-office movement. So far, those efforts are helping firms cut recruiting costs and retain high performers, companies say.

Cisco Systems Inc. CSCO -1.21% has developed an internal career program, called Talent Connection, that seeks to identify "passive candidates," qualified employees who aren't necessarily looking for a job. The system is designed to help recruiters approach internal candidates the way they do external ones, says Mark Hamberlin, a Cisco vice-president of global staffing.

Since 2010, about half of Cisco's 65,000 employees have created profiles on the website and even more have used it to search for jobs, says Mr. Hamberlin. Talent Connection has saved the company "several million dollars" in search-firm fees and other recruiting costs, while employee surveys show workers' satisfaction with career development has risen by nearly 20 percentage points, he said.

Promoting from within—from the chief executive on down—can deliver more benefits for companies than hiring outside talent, a growing body of research suggests.

One recent study from the University of Pennsylvania's Wharton School found that external hires were paid some 18% more than internal employees in equivalent roles, but fared worse in performance reviews during their first two years on the job.

Hiring managers may be wowed by an outsider's résumé or new perspective, but they "underestimate how hard it is to integrate new people," says Matthew Bidwell, a Wharton assistant professor whose study examined six years of employee data at a financial services company's U.S. investment banking unit, covering nearly 5,300 workers.

No matter how good the software, recruiters and employees need to carefully manage talent-hoarding bosses who fear losing top performers, says John Sullivan, a management professor at San Francisco State University.

Internal hiring systems are often useful for companies where work is done on a project basis. At Shaw Group Inc., SHAW -1.90% an engineering and construction services company based in Baton Rouge, La., employees work on assignments that last anywhere from a few months to a decade. With 27,000 employees, management needed a comprehensive database to track workers' skills and experience.

"One of our executives said what we want is a baseball card," or a single page containing an employee's skills, training completed and performance evaluations, said Lacy Kiser, vice president of human resources at Shaw's Power Group in Charlotte, N.C.

The result is an Internet-based system that allows managers to quickly assess what talent is available for an open project and determine whether to begin an external search.

Since the system went live in late 2009, open positions are now staffed in 45 days, down from 60 days two years ago, Mr. Kiser said.

CEOs Hired Internally Outperform Rivals

To be sure, companies need to make some external hires, especially in areas that could use a shake-up, or when they're growing rapidly. Prof. Sullivan said that change agents often have to come from outside.

Google Inc. GOOG -1.19% last year replaced its internal job board with Magnet, a site that gives workers more information about internal career paths and encourages worker mobility. Workers who are interested in a move can tag themselves within Magnet as "looking for new opps" if they want to be considered for open positions.

Last summer, Nicky Crane used Magnet to move from a technical position in human resources to become a product manager at YouTube. The site allowed her to learn about various teams and staffers' backgrounds, she said. She found out, for instance, that a friend and a friend-of-a-friend were on the team, which helped her determine whether the job would be a good fit.

Her former manager, she adds, was supportive of the switch. "It was a pretty easy conversation to have," she said.

In 2010, consulting firm Booz Allen Hamilton created an internal recruiting system, called Inside First. Each business unit gets a recruiter to act as career coach and matchmaker, and all managers and employees have access to a database of job openings and staff profiles, with information such as languages spoken and willingness to relocate.

The company, which has about 25,000 employees, now fills about 30% of open positions with internal hires-up from 10% two years earlier.

"We overlooked our own people. It was easier to go to the outside," said Lucy Sorrentini, a principal in people services at Booz. The company has since found it is more efficient to bring insiders up to speed. "They know our firm and in some cases they already know the client," she said.

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