

# Conference on Tournament/Promotion

## 22<sup>nd</sup> July 2015

10 am – 6 pm @ conference room  
at Institute of Economic Research,  
Hitotsubashi University

PROMOTION is a frame structure of an internal organization. Since the seminal work by Edward Lazear and Sherwin Rosen, the economics has tried to understand the mechanism, mainly based on the tournament theory. While thirty-year investigation has partially uncovered the black box of promotion, we are still searching for missing pieces; how the promotion structure is affected by the change in external labor market, what kind of factors should be used in the promotion, or how the promotion structure forms the labor market outcome such as wage differentials. This summer we collect six papers that focus on the mechanism of promotion in the internal organization. Each paper has different viewpoint and different data sources from employer-employee matched data to personal data, and the reactions in the conference will provide us the additional knowledge on the role of promotion in labor markets.

Invited Speakers are

**Jed DEVARO** (California State University)

**Anders FREDERIKSEN** (Aarhus University)

**Daiji KAWAGUCHI** (Hitotsubashi University)

**Hideo OWAN** (the University of Tokyo)

**Francois POINAS** (University Toulouse 1 Capitole)

**Yuko UENO** (Hitotsubashi University)

*Please register at [a-ito@ier.hit-u.ac.jp](mailto:a-ito@ier.hit-u.ac.jp) not later than 22<sup>nd</sup> June 2015,*

*with the availability for lunch and dinner.*

*Questions are welcome by Ryo Kambayashi (Organizer) at [kambayas@ier.hit-u.ac.jp](mailto:kambayas@ier.hit-u.ac.jp).*

## Program (subject to change)

**10:00**                    **Opening remark by organizer**

**10:10-11:10**           **Jed DEVARO** (California State University)

*"Internal and External Hiring: the Role of Prior Job Assignments" (with Antti KAUHANEN and Nelli VALMARI)*

Using a large, linked, employer-employee panel data set from Finland we highlight the importance of work history as a determinant of internal-versus-external hiring decisions. Prior studies have shown that external candidates need better observable indicators of ability (in terms of education and experience) than internal candidates do. Our work confirms those results. We also show the (new) result that external candidates need strong observable indicators of ability (in terms of prior career success and occupation-specific human capital) to be hired.

**11:10-12:10**           **Yuko UENO** (Hitotsubashi University)

*"Firms' Incentive Provisions: Tournament Structure and Worker Flow" (with Ryo KAMBAYASHI)*

This study aims to examine how Japanese establishments employ varied tools to motivate workers including wage progression, bonus, promotion, or threat for dismissals. We base our discussion on standard tournament structure, while taking account of the link between the tournament and the worker flow that affects the degree of internal competition for managerial positions. By the use of an establishment-level panel dataset, we find that our data is consistent with the tournament theory, particularly after the Lehman shock. Further, there is some evidence that indicates Japanese firms tend to treat lifetime employees separately from mid-career workers in their promotion ladder.

**Lunch (12:10-13:30)**

**13:30-14:30**           **Daiji KAWAGUCHI** (Hitotsubashi University)

*"University Prestige, Performance Evaluation, and Promotion: Estimating the Employer Learning Model using Personnel Datasets" (with Shota ARAKI and Yuki ONOZUKA)*

The employer learning model postulates that employers form employees' prior ability distribution from educational credentials and update its distribution by observing workers' performance on the job. This paper estimates the employer learning model for university-graduate white-collar workers using personnel datasets from two large manufacturers that contain rich information, including the name of the university from which the worker graduated, annual performance evaluations, and position in the promotion ladder. The estimates indicate that employers learn workers' ability relatively quickly through observing their performance on the job. The initial expectation errors on ability decline by a half in about three to four years in the two companies. Companies promote graduates of elite schools quickly mainly because they tend to perform better on the job.

**14:30-15:30**      **Francois POINAS** (University Toulouse 1 Capitole)

*"Promotion Determinants in Corporate Hierarchies: An Examination of Fast Tracks and Functional Area"* (with Christian BELZIL and Michael L. BOGNANNO)

This article estimates a dynamic reduced-form model of intra-firm promotions using an employer-employee panel of over 300 of the largest corporations in the U.S. in the period from 1981 to 1988. The estimation conditions on unobserved individual heterogeneity and allows for both an endogenous initial condition and sample attrition linked to individual heterogeneity in demonstrating the relative importance of variables that influence promotion. The role of the executive's functional area in promotion is considered along with the existence and source of promotion fast tracks. We find that while the principal determinant of promotions is unobserved individual heterogeneity, functional area has a high explanatory power, resulting in promotion probabilities that differ by functional area for executives at the same reporting level and firm. No evidence is found that an executive's recent speed of advancement in pay grade has a causal impact on in-sample promotions after conditioning on the executive's career speed of advancement. For high-level executives, fast tracks appear to result from heterogeneity in persistent individual characteristics, not from an inherent benefit in recent advancement itself.

**Coffee Break (15:30-16:00)**

**16:00-17:00**      **Hideo OWAN** (the University of Tokyo)

*"Working Hours, Promotion and the Gender Gaps in the Workplace"* (with Takao KATO and Hiromasa OGAWA)

This paper presents a model of promotion which features two different sources of asymmetric information—disutility of working long hours and managerial ability. The former is the worker's private information while the latter is the employer's private information. The firm decides whether to disclose its private information to the worker or not and the worker chooses working hours to signal its preference over working hours. We show that there are two distinct equilibria characterized by early selection and late selection, respectively. In the former, the employer optimally reveals its private information whereas it optimally conceals it in the latter. The late selection equilibrium works against women who typically have higher disutility of working long hours. Therefore, as more women participate in the labor market as full-time workers, a shift to the early selection equilibrium may be efficient. The model also predicts that white-collar exemption encourages the adaptation of early selection. Using personnel records of a large Japanese manufacturing firm, we find an indication that the firm might be shifting toward early selection for women.

**17:00-18:00**      **Anders FREDERIKSEN** (Aarhus University)

*"Supervisors and Performance Management Systems"* (with Lisa KAHN and Fabian LANGE)

Performance management systems that rely on supervisor ratings are a useful tool for companies to alleviate the information deficit they face when managing employees. Supervisors, however, may differ along several dimensions. In particular, supervisors likely differ in their managerial ability and better supervisors can reduce the cost of effort for their employees. Supervisors may also differ in their rating behavior because they have different preferences over their willingness to report accurately as opposed to favorably about their team members. These differences in supervisor preferences gives right to reporting biases that vary across supervisors and do not reflect actual differences in the underlying capability of a worker. In this paper, we study the nature and importance of supervisor heterogeneity for the career outcomes of the employees (e.g. compensation and promotions). We do this using the personnel records from a large Scandinavian service sector firm.

**18:00**              **Closing remark by organizer**

**Conference dinner (18:30-20:30)**