Managing Careers in Organizations*

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Rongzhu Ke         Jin Li       Michael Powell

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Abstract

This paper investigates the optimal personnel policies when careers in organizations are important. Our model extends classic Shapiro and Stiglitz efficiency-wages model to allow for multiple jobs within an organization. Organizations make hiring-, demotion-, promotion-, retention-, and wage-policy decisions. The optimal personnel policies display features of internal labor markets: organizations institute a port of entry and a linear career progression. When promotion opportunities are limited, organizations increase wages at the top and push out workers. In addition, organizations become more top heavy. Finally, the sizes of organizations increase with the turnover rates of workers at the top but are less responsive to productivity shocks.

*Rongzhu Ke: Department of Economics, Chinese University of Hong Kong. E-mail: rzke@cuhk.edu.hk. Jin Li: Department of Management and Strategy, Kellogg School of Management, Northwestern University. E-mail: jinli@kellogg.northwestern.edu. Michael Powell: Department of Management and Strategy, Kellogg School of Management, Northwestern University. E-mail: mike-powell@kellogg.northwestern.edu. We are grateful to Daron Acemoglu, Ricardo Alonso, Pierre Azoulay, Tim Bond, Yuk-fai Fong, Bob Gibbons, Bengt Holmstrom, Ben Jones, Kevin Lang, Danielle Li, Niko Matouschek, David Matsa, Giuseppe Moscarini, Arijit Mukherjee, Nicola Persico, Jim Rebitzer, Xianwen Shi, Aloysius Siow, Wing Suen, Jano Zabojnik, and seminar participants at HKU, HKUST, Purdue, Queens, Regensburg, and UToronto (CEPA Brown Bag) for helpful conversations and suggestions.