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## Managerial Incentives and Favoritism in Promotion Decisions: Theory and Field Evidence

by Johannes Berger, Claus Herbertz, Dirk Sliwka  
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### Abstract:

This paper investigates the effects of managerial incentives on favoritism in promotion decisions. First, we theoretically show that favoritism leads to a lower quality of promotion decisions and in turn lower efforts. But the effect can be mitigated by pay-for-performance incentives for managers who decide upon promotion. Second, we analyze matched employer-employee survey data with detailed firm level information on managerial incentive schemes and find that perceived promotion quality is indeed substantially higher when managers receive performance-related pay or participate in gain sharing plans.

**Text:** See [Discussion Paper No. 5543](#)



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