

Promotion Tournaments and the Selection of Low-Ability Managers*

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Abstract

Using a two-stage tournament model, this paper examines internal promotions in which two heterogeneous agents vie for a managerial position. The winner is appointed manager, the loser remains as subordinate, and the pair subsequently collaborate on a project the success of which depends on both parties' efforts. When managerial and subordinate efforts are strategic complements, promoting the lower-ability agent can counter-intuitively raise success probabilities because the high-ability subordinate supplies compensating effort. By contrast, when efforts are strategic substitutes, appointing the higher-ability agent maximizes performance. The model delineates the parameter conditions separating these regimes, thereby showing how promotion tournaments can either bolster or impair organizational outcomes through their effect on team composition. In doing so, it clarifies the trade-off between effort incentives and optimal leadership selection and provides a theoretical foundation for empirically observed instances of the Peter Principle.

JEL Classification: D82, J33, M52, D21

Keywords: Promotion tournaments; Managerial incentives; Team production; Strategic substitutability; Internal labor markets; Ability selection

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