

The Firm-Growth Imperative: A Theory of Production and Personnel Management

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Abstract

We develop a model in which a firm makes a sequence of production decisions and has to motivate each of its employees to exert effort. The firm motivates its employees through incentive pay and promotion opportunities, which may differ across different cohorts of workers. We show that the firm benefits from reallocating promotion opportunities across cohorts, resulting in an optimal personnel policy that is seniority-based. Our main contribution is to highlight a novel time-inconsistent motive for firm growth: when the firm adopts an optimal personnel policy, it may pursue future growth precisely to create promotion opportunities for existing employees.