

Managing Careers in Organizations*

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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.

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