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Klaus J. Brösamle

## Careering Bureaucrats and Bureaucrats' Careers

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### Research question and overview

A fundamental question in organizational research which most people will have asked themselves in one form or another – be they scholars of the field or employees in a hierarchical organization – is whether those employees who rise to the top-level positions are really the best. Similarly, many people – again scholars and practitioners alike – will be familiar with the suspicion that „real“ on-the-job performance (i.e. productivity) is not necessarily what counts for obtaining pay rises and promotions.

The thesis „Careering Bureaucrats and Bureaucrats' Careers“ addresses these questions in one of the arguably most archetypical settings of hierarchical organization: public bureaucracies. It does so by investigating game theoretically as well as quantitative empirically whether there are reasons to believe that utility maximizing, self-interested bureaucrats employ non-productive activities – so called *careering actions* – in order to secure promotions despite not actually being the best candidates for advancing. Support for this concern is found. While ability and performance matter, the careering theory suggests that *eagerness* is at least as important a determinant of who obtains promotion. This result is derived from a model which assumes careering activities to be costly, so that those individuals who derive most utility from holding a high-level position – the eager ones – use them most intensively. The main piece of empirical evidence underpinning this suspicion comes from civil employees in the US Department of Defense (the “Pentagon”), for whom it is shown that inter-bureau mobility, i.e. mobility between different units of the Pentagon, which is used as a proxy for eagerness (mobility is costly but not as such productive), is a stronger predictor of promotions than actual performance. In fact, even a substitutive effect is found, according to which more inter-bureau mobility facilitates promotion despite worse performance.

### Related literature

The thesis relates and contributes to two streams of literature, which in fact belong to two different disciplines. The first and most relevant here is personnel economics research concerned with determinants of promotions within hierarchies and the closely linked literature on selection for promotion (or leadership selection).<sup>1</sup> Of particular interest is a small number of papers interested in how factors other than ability and productive effort affect promotions and selection. Köszegi and Li's (2008) modelling of “drive” resembles eagerness in this study, and Milgrom and Roberts' (1988) concept of “influence” is closely related to careering actions (see below).

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<sup>1</sup> Gibbons and Waldmann (1999) contains an overview of mostly theoretical and some empirical work.

The second is an older debate in the political and public administration sciences, kick-started by scholars like Buchanan, Tullock, and Niskanen, all of whom developed the early rational choice theories of bureaucratic behaviour, thereby asking questions such as what do bureaucrats maximize, what drives them, and what do they do.<sup>2</sup> The thesis takes a stance on all of these: It is argued that bureaucrats maximize career utility, rising in rank is what drives them (because income, status, influence, and most other desirable things come with it), and bureaucrats' main activity – viewed most generically – is pursuing a career within the hierarchy of their organization. The theory of careering bureaucrats developed in the thesis takes these assumptions as its basic building blocks.

## Theory

Based on the assumption that employees working in bureaucracies derive most of their work-related utility from promotions, traded-off only with the cost of trying to obtain them, the formal-theoretical part of the thesis models the generic *career game* between a principal who acts as the controller of career rewards (she decides over promotions and assignments) and subordinate agents who take actions in order to obtain promotions. The theory differentiates productive actions (anything that furthers the mission of the organization) and so called *careering actions*. These are any activities that enhance an individual's likelihood of obtaining promotion but which are non-productive (i.e. not conducive to the mission of the organization). Two types of careering are distinguished. The first is *trade-based careering*, where principals reciprocate favours by the agent with promotions. The theoretical foundations go back to Blau's sociological work on "power and exchanges in organizational life" (Blau 1964). The elusive (and often near-corrupt) nature of such career trades requires, however, that the bulk of the thesis focuses on the second type of careering actions: namely *influence-based careering*, which change superiors' beliefs about agent ability so that promotion decisions are biased in their favour. Milgrom and Roberts' model of "influence activities" (1988) is closely related in which employees spend resources on generating credentials to signal their otherwise unobservable suitability to work in a higher-level job. Even though the employer knows that credential-building impairs production and that the self-interested agents overstate their true ability, she tolerates this to at least obtain some information on agents' types.

The setup of the career game in the thesis is the following: From among a cohort of agents who are heterogeneous along two dimensions, ability and eagerness, the principal aims to single out the most able in order to promote them to important high-level jobs. Both, ability and eagerness are unobservable and non-verifiable. Agents experience disutility from expending effort and they derive utility from holding posts (because of pay and/or status). More eager agents attach more value to higher-level positions. The agents' main choice is how much effort to expend on a careering activity, which may be some pet project or – similar to the influence activities model – the agent lobbying for internal re-assignment to a special post. The careering activity is

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<sup>2</sup> Most closely related to this thesis is the seminal work of Tullock (1965) because of his explicit focus on bureaucrats "lower down in the administrative pyramid" (p. 34).

not directly observable but, together with the productive ability of the agent, determines probabilistically whether a success or failure is observed. This implies that, even though a success is entirely irrelevant for production, it is a mixed signal for agent ability and eagerness. Therefore, the principal relies on its informational content (for lack of a better signal) and ends up knowingly promoting not necessarily the best but also the most eager agents. Leadership-selection turns out sub-optimal or “second-best”.

A commonality with the influence activities model is that in both cases the employer is perfectly aware of her agents taking non-productive actions and of the fact that she actually takes decisions based on these “harmful” and imperfect ability signals. Key differences to the influence model are that Milgrom and Roberts explicitly model how influence lowers production (which remains implicit in the careering model), while the careering model focuses on the sub-optimality of the resulting leadership selection (which Milgrom and Roberts are less concerned with).

## Evidence

The empirical part of the thesis investigates determinants of promotion of civil servants who pursue medium to long-term careers within multi-layer hierarchies. The empirical strategy is to show how observable actions that qualify as careering activities are a stronger predictor of promotions than actual performance. In other words, the empirical part tests that prediction that the main “symptom” of organizations in which careering takes place is sub-optimal leadership selection. The method used is quantitative analysis of panel data recording civil servants’ career histories. The two crucial empirical chapters lend support to the theory in two steps.

One study investigates whether inter-unit mobility on the “internal labour market” of public bureaucracies qualifies as an influence-based careering activity. The analyses clearly reveal that higher levels of mobility are positively associated with the likelihood of reaching a top-level position. Additional tests suggest that the link between mobility and career success works through a signalling mechanism. Since inter-unit mobility is voluntary even though it is costly to agents and because it is not as such productive, it is concluded that internal mobility can be seen as a careering activity.<sup>3</sup>

A second study then investigates whether higher levels of inter-unit mobility lead to worse leadership selection. This is done using panel data on the career histories of civil employees in the US Department of Defense. It turns out that past inter-bureau mobility has strong predictive power for employees’ promotions even when on-the-job performance is controlled for. Even more strikingly, eagerness (proxied by mobility) and performance are substitutes in determining promotions, meaning that more mobile employees obtain promotions even if they exhibit worse performance than their less mobile peers. These findings are taken as evidence that a typical hierarchical public sector organization indeed exhibits the main symptom predicted by the careering model, namely sub-optimal leadership selection.

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<sup>3</sup> An alternative view is that internal mobility is a proxy for eagerness, which permits all inferences that the thesis makes.

## Concluding remarks

The thesis *Careering Bureaucrats and Bureaucrats' Careers* revisits a fundamental issue in the study of hierarchical organizations, namely whether selection for promotion to higher-level jobs may be inherently flawed. In line with much anecdotal evidence and common popular impressions, it shows theoretically and provides empirical support for the suspicion that – under plausible assumptions of informational incompleteness regarding principals' knowledge of agent characteristics – eagerness and not (only) performance determine promotion outcomes. While the focus of the thesis lies particularly on public bureaucracies and all the empirical analyses are based on data from public sector organizations, the findings should “travel” to the extent that the organizational structures, incentives, and career paths in for-profit firms resemble those in public bureaucracies.

Without claiming to be exhaustive, three limitations of the work shall be pointed out, which hopefully spark further research on the issue. 1) In the interest of clarity and simplicity, the formal model cuts short many important aspects, for example the explicit modelling of productive actions. More advanced models could re-introduce this aspect (but beware of the dual signalling!). 2) While inter-unit mobility certainly reflects careering actions and eagerness in some way, future studies could provide interesting additions by using direct measures of eagerness – for example from survey responses. 3) Similarly, one can question whether on the job performance is the best indicator for ability and leadership suitability. Therefore, also studies using richer measures of ability and performance would be valuable additions.

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