Do Previous Promotion Awards Affect Current Decisions? Investigation of Intertemporal Correlations of Personnel Decisions

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Abstract

Purpose - This study analyzes the intertemporal patterns in personnel decisions made between a supervisor and a subordinate to understand potential supervisor bias in the decisions. A correlation between the current and the most recent personnel decisions made for a subordinate by a current supervisor captures certain relationship-embedded and time-invariant factors in effect. The characteristics speak to the nature of a supervisor bias arising from a relationship, or favoritism.
Design/methodology/approach - This study manually collects the executive profile data from annual reports of key Samsung Group affiliates and compile a longitudinal sample of 3,675 executive-years. It mainly explores the logistic regression analysis.
Findings - The study finds that a supervisor' previous promotion award to a subordinate does not improve but decreases the likelihood of promotions in ensuing years, suggesting the containment of favoritism; and that the time since the last promotion award to a subordinate by the current supervisor increases the likelihood of both promotions and dismissals of the subordinate.
Research implications or Originality - The findings are generally consistent with the theory suggesting that incentive schemes that align interests between an individual and an organization will contain the form of a supervisor bias.

Keywords: Favoritism, Personnel Decisions, Promotions, Supervisor Bias
JEL Classifications: M12, M51, M52

Ⅰ. Introduction

This paper examines whether and how a supervisor's previous promotion award to a subordinate affects a current-round personnel decision for the subordinate. A series of promotions repeatedly awarded to a subordinate by a supervisor indicates the effect of some factors that exist in a relationship between the two individuals and do not vary over time. These factors, accordingly, have little to do with ability or performance that should matter in promotion decisions in high-performing merit-based human resource management (HRM) practices. Rather, if any, the time-invariant relationship-based factors are likely associated with a form of supervisor bias in the decisions, or favoritism[1] in particular. To understand the effect of the bias, this study attends to an econometric feature in the estimation of a decision likelihood that

1) Biases in supervisor rating, including punishment, interpersonal motives, or personality, are never trivial in organizations and arise from various reasons (Kampkötter, 2017; Krzystofiak et al., 1988; Kwon, 2006; Poon, 2004; Prendergast and Topel, 1996). Favoritism in this study does not distinguish causes but refers to a supervisor's consistent act of favoring certain subordinates over others in personnel decisions.

captures a correlation between the decisions made between the supervisor-subordinate dyad at two points in time.

Not surprisingly, to the extent that subordinates perceive the decisions (mistakenly) as out-comes of favoritism, the bias likely leads to adverse consequences in organizations (Adler and Kwon, 2002, 1999; Cheng, 2014; Kwon, 2006; Podolny and Baron, 1997; Portes, 1998; Prendergast and Topel, 1996; Smith-Doerr and Powell, 2005; Tsui and O'Reilly, 1989; Wesolowski and Mossholder, 1997). Favoritism is indeed a real problem in the workplace; many employees complain about it and even count it as one of the main reasons to quit their jobs (Albright and Carr, 1997; SHRM Online, 2012; Smith, 2013; Toth, 2012; Zappe, 2011). Consistently, several studies report the presence of favoritism in diverse settings (Bandiera et al., 2008; Bjerke et al., 1987; Breuer et al., 2013; Garicano et al., 2005; Longenecker et al., 1987; Pérez-González, 2006). As an efficient countermeasure against favoritism, Prendergast and Topel (1996) suggest that financial incentives rewarding supervisors' own performance would align the interests of supervisors with those of an organization and thus curb favoritism. Despite its theoretical strength, only a few empirical studies report the evidence supporting the effectiveness of the measure (Bandiera et al., 2009; Berger et al., 2011; Rickman and Witt, 2008).

A moment's observation of the data containing personnel records collected from a Korean conglomerate suggests that once supervisors award promotions to certain subordinates, they promote the same subordinates repeatedly over the ensuing years. In particular, out of total 623 promotion awards observed during the sample period, 408 promotions (65.5 percent) are repeated between a supervisor and a subordinate. Considering that laypersons seldom do strict statistics, the observation provides a good reason to suspect favoritism. This study calls a supervisor's repeated promotion awards to certain subordinates into question.

To identify the effect of a supervisor bias, this study examines the intertemporal correlations of personnel decisions to report the following. First, a previous promotion that was awarded by a current supervisor does not improve but reduces the chance of promotion (i.e., a negative correlation) after controlling for the tenure in the current rank and other determinants of person-nel decisions. However, a dismissal is less likely for subordinates who have been promoted by the current supervisor. Second, I find that the time since the previous promotion award by a current supervisor is positively associated with the likelihood of both promotions and dismissals. The finding suggests that supervisors appreciate the information, as opposed to the relationship per se, that has been exchanged for an extended period of time and at a closer hierarchical proximity.

With the novel findings, this study contributes to prior literature in three ways. First, it con-tributes to the promotion literature by identifying a correlated omitted variable of a relationship that affects a supervisor's behavior when using subjectivity in promotion decisions. Although prior studies (Baker et al., 1994a, 1994b; Medoff and Abraham, 1980) note that promotion decisions involve a decision-maker's significant effort and subjectivity, little research has ad-dressed the fact that the subjective component in the decisions may well be affected by super-visors' social relationships with subordinates. This study sets about to discuss the effects of supervisor-subordinate relationships on personnel decisions, considering different occasions where the costs of favoritism vary and, accordingly, affect supervisors' behavior.

Second, the study also contributes to the literature on favoritism. Following the theoretical prescription by Prendergast and Topel (1996), a few empirical studies (Bandiera et al., 2009, 2008; Berger et al., 2011; Rickman and Witt, 2008) examine how financial incentives, when

aligned with organizational interests (i.e., residual claimancy), may help to alleviate favoritism that likely goes against the interests of an organization. Despite the clear implications, it is debatable whether these research findings that originate from unique research settings—including soccer referees (Rickman and Witt, 2008) and plantation farm labor managers (Bandiera et al., 2009)—are generalizable to white-collar workers in a contemporary industrial organization. This study instead empirically tests the effects of previous supervisor-subordinate relationships on their development with a large sample of executives in an industrial organization with a well-developed HRM practice. The findings from a longitudinal dataset in an archival setting are scarce and add to the evidence that merit-based compensation policies help to mitigate favoritism.

Third, this study suggests an alternative, empirically feasible strategy to study relationships. To capture any effects arising from (social) relationships under archival settings, prior studies have used proxies primarily based on homophily or institutional ties: for example, gender, school ties, family ties, or regional ties. They are indeed indisputable sources of favoritism. Still, it should be noted that each source individually or in combination with others accounts for only a fraction of diverse types of social relationships. It is practically impossible to identify countless combinations of different types of relationships, to differentiate their attributes, and to measure their effects on promotion decisions. Those proxies, by no means, can capture a wide variety of relationships comprehensively and, therefore, are individually and collectively incomplete. Instead of capturing the unverifiable attributes of diverse supervisor-subordinate relationships, I examine the intertemporal correlations of the decisions made in a supervisor-subordinate dyad.

II. Literature Review and Hypotheses

1. Favoritism and Incentive as a Countermeasure

Favoritism in the workplace refers to supervisors' exercise of personal preference for certain subordinates over others. As a value-neutral form, it is an act of building and maintaining social relationships. With somewhat negative connotations attached, it is a form of supervisors' bias that arises in association with their use of relationships. Indeed, favoritism has been criticized for its detrimental effects on people and organizations in industrial settings: stress, workplace conflicts, political and power struggles, inefficient decisions, and the loss of motivation and productivity (Adler and Kwon, 2002, 1999; Longenecker et al., 1987; Pérez-González, 2006; Prendergast, 1993; Tirole, 1986). Economists generally have taken a more negative view on favoritism. They see that favoritism creates inefficiency in principal-agent relationships, and thus firms should remove or contain it by limiting a supervisor's power to exercise favoritism (e.g., Prendergast, 1993; Tirole, 1986).

Advancing the discussion of favoritism in the economics literature, Prendergast and Topel (1996) call for organizations' attention to effective incentive provisions and monitoring arrangements to constrain favoritism. They note that an interest-aligning incentive scheme makes supervisors responsible not only for their own performance but also for their subordinates' performance and organizational performance. Such an incentive scheme stops them from making

inefficient personnel decisions based on relationships per se than information about subordinates' qualities and qualifications.

Building on Prendergast and Topel's (1996) prescription for a measure against favoritism, a few empirical studies (Bandiera et al., 2009; Berger et al., 2011; Rickman and Witt, 2008) document evidence that the provision of incentives inducing supervisors to report their subordinates' qualities truthfully alleviates undue use of favoritism. Exploring an interesting field experiment opportunity in an agricultural setting, Bandiera et al. (2009) find that financial incentives for supervisory tasks not only stop managers from favoring socially connected workers but also redirect their managerial support towards more productive workers to increase their own compensation, which, thus, improves organizational productivity. Rickman and Witt (2008) exploit another interesting setting to compare the effects of favoritism before and after the inception of performance-based financial incentives. Analyzing the judgments made by the professional soccer referees in the English Premier League, they report that financial incentives reduce bias in referees' judgment favoring home teams. A survey conducted by Berger et al. (2011) find that the use of pay-for-performance schemes in German firms is positively associated with the perceived quality of promotion decisions.

2. Hypotheses Development

A promotion award, in general, is an indication of a supervisor's positive evaluation of subordinates' performance for current jobs and/or qualifications for new jobs. However, this may not always be the case. As Prendergast and Topel (1996) point out, supervisors with authority to influence subordinates' welfare can extract benefits from exercising power in the form of favoritism and, therefore, have little incentive to report their subordinates' performance and/or qualities truthfully unless they are incentivized otherwise. It is only when supervisors are rewarded for their (organizational) performance that they adopt a personnel decision-making policy that their organization would. An interest-aligning, performance-based reward policy imposes costs of favoritism on supervisors as much as their organizations would bear and, accordingly, constrains favoritism (Prendergast and Topel, 1996).

Under the policy, promoting and keeping capable and productive subordinates around is a tenable strategy for supervisors to improve their own performance and compensation. In contrast, promoting less competent ones and assigning more important jobs to them likely deteriorates supervisors' own performance and compensation and does little benefit to the supervisors. This, in a worse-case scenario, would put the supervisor's own career in the organization at risk. Further, as any employees in an organization can observe others' personnel decision outcomes, promoting certain subordinates solely based on personal connection and attachment, or 'blatant favoritism,' is too strong a form of favoritism. Such a decision is highly detectable and has significantly negative consequences including demotivation, loss of trust, challenge, or sabotage of not only unfavored subordinates but also other workers at arm's length (i.e., externalities). In sum, under a merit-based system, favoritism in promotion decisions incurs considerable costs to supervisors themselves and therefore is contained to a level at which the associated costs do not exceed the benefits.

The first hypothesis tests the correlation of personnel decisions in the conglomerate with a merit-based reward system where undue favoritism incurs significant costs to supervisors. Without favoritism, there is no reason to expect a greater likelihood of promotion for those

whose last promotion has been awarded by the current supervisor than for the others who have been promoted by other supervisors. In contrast, a supervisor's favoritism in promotion decisions, if present, would manifest itself in repeated promotion awards (with some temporal gap) to subordinates. In an empirical model, this would be realized as a positive association between the current supervisor's previous promotion award and the likelihood of promotion for the current round. On the contrary, little or no association suggests the containment of favoritism.[2]

> **H1a:** A current supervisor's previous promotion award to a subordinate improves the like-lihood of promotion of the subordinate.

Favoritism may work in a weaker form to extend favorite subordinates' tenure in a firm, deferring a dismissal for them. It is a relatively inexpensive and unobtrusive means to favor, if any, certain subordinates, since keeping them at the current rank is a far less detectable act of favoritism than promoting them. Further, it may also allow supervisors to figure out the right timing at a later time to promote favorite (but less competent) subordinates causing as little friction as possible. In personnel decisions made for a subordinate between times, the weak form of favoritism translates into a negative effect of the current supervisor's previous promotion award on dismissal, or a positive effect on retention.

> **H1b:** A current supervisor's previous promotion award to a subordinate reduces (increases) the likelihood of dismissal (retention) of the subordinate.

A promotion reshuffles relationships in an organization. At the time of award, it reduces hierarchical distance and reconditions the relationship between a supervisor and a subordinate. Thereafter, it provides opportunities to further develop trust, shared values, fitness as a team, and even personal attachment. Closer proximity in the hierarchy, raised team spirit, or stronger personal attachment, in turn, allows frequent interactions and improves the quality of in-formation exchanged between the two individuals. The benefits from the super-visor-subordinate relationship are well illustrated in the leader-member exchange (LMX) theory (e.g., Dulebohn, Bommer, Liden, Brouer, & Ferris, 2012; Napier & Ferris, 1993; Wayne, Shore, & Liden, 1997) and consistent with the social capital literature's configuration of relationships (e.g., Bourdieu, 1985; Coleman, 1988; Baker, 1990; Portes, 1998; Lin, 1999; Adler and Kwon, 2002; Smith-Doerr and Powell, 2005).

Notably, the communication of valuable information about subordinates' qualifications re-quires substantial time and effort (Coleman, 1988; Hansen, 1999; Sorenson et al., 2006). Taking this into consideration, the second set of hypotheses tests the effects of the time since the renewal of a supervisor-subordinate relationship during which supervisors accumulate in-formation to update their evaluation for another round of promotion competition.

If it had any effect, favoritism would result in the time since the renewal of a relationship positively associated with promotions but not with dismissals, as favoritism by its nature works in one direction. However, as in H1a, blind favoritism may be too costly to serve as a rational

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2) In logics, this statement is a contraposition of 'if favoritism prevails, then an intertemporal correlation picks it up.' As favoritism results in an intertemporal correlation of promotion decisions (A→B), its contraposition, or 'no corre-lation indicates the absence of prevalent effects of favoritism' (~B→~A), holds true.

strategy for supervisors under a merit-based incentive scheme. On the other hand, a closer relationship that has been retained for a long time may help a supervisor to identify not only more talented candidates but also less talented ones. This would result in a positive association between the time since the last promotion awarded by the current supervisor and the likelihood of both promotions and dismissals.

H2a: The likelihood of promotions increases as the time since a subordinate's recent promotion awarded by the current supervisor gets longer.

H2b: The likelihood of dismissals (retention) increases (decreases) as the time since a subordinate's recent promotion awarded by the current supervisor gets longer.

Ⅲ. Research Setting

This study analyzes the personal profiles of executives collected from the corporate annual reports of significant subsidiaries of Samsung Group. The Group is the largest Korean conglomerate as of 2015 and has shown a strong record of success for the past several decades (Khanna et al., 2011). This study takes advantage of a couple of features in its HRM practice that provide a favorable research opportunity. First, contrary to the common stereotypes of organizational cultures in Asian or Korean companies (Kim and Cannella, 2008; Shin and Chin, 1989), the conglomerate underscores individuals' competence and performance as determinants of rewards, including promotions (Bae and Lawler, 2000; Chang, 2012; Milliman et al., 2002, 1993; Pucik and Lim, 2001; Steers et al., 1990; Suh, 2014). Milliman et al. (2002), for example, find that performance evaluations are a stronger determinant of promotions in Korean companies than in U.S. companies. In particular, promotions in the conglomerate are expected to be determined mainly based on candidates' competence rather than by a bureaucratic mechanism such as seniority (Chang, 2012; Pucik and Lim, 2001). Under such a merit-based HRM policy, developing and maintaining a group of capable and productive subordinates, as opposed to personally attached ones, is critical for a supervisor's own success in terms of both compensation and career advancement because the performance of subordinates under his or her management contributes to the supervisor's own performance. Accordingly, any inefficient personnel decisions, including those based on blind favoritism, are extremely costly to both promotion-awarding supervisors and the organization. In this regard, the research setting provides a fair ground to assume supervisors' rationality in the choice of a level of favoritism when they make personnel decision for their subordinates.

Second, the conglomerate manages its human resources primarily through the internal labor market, with little reliance on external labor markets. Even from an employee's perspective, executives prefer staying within the conglomerate as they consider external opportunities a secondary or inferior alternative.[3] Their strong preference for internal mobility over external career opportunities strengthens the efficiency of a conglomerate's internal labor market focus. Consequently, both parties' internal labor-market orientation allows this study to ignore the immaterial effects of external labor markets.

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3) In Korea, an executive's job movement between conglomerates of similar corporate size and reputation, rarely occurs. External markets seldom supply similar or better opportunities in terms of economic and social benefits. Further discussion is beyond the scope of this study.

IV. Research Method

1. Intertemporal Correlation of Personnel Decisions

This study examines the intertemporal correlations of the decisions made for a subordinate by a supervisor using an indicator variable for whether a subordinate's recent promotion was made by the current supervisor. The indicator variable is the key design feature of the study to detect supervisor biases that affect personnel decisions consistently over time and that arise in a supervisor-subordinate relationship. Importantly, the two key attributes that it captures (i.e., time-invariant and relationship-specific) answer the description of favoritism. First, the indicator correlates promotion decisions between the two points in time. Thus, it represents the effects of any factors that do not vary over time—at least between the most recent decision and the current one. Favoritism also pertains to consistency in time. In other words, causes of favoritism such as school, kin, and region[4] seldom vary over time. If favoring a particular person does not continue over time, it is no longer favoritism or at least irrelevant to the type of favoritism in this study. Second, by construction, the indicator compares the likelihoods of personnel decisions between two groups of subordinates: those whose last promotion was awarded by the current supervisor and the others whose last promotion was made by others (i.e., a previous supervisor of the unit or a supervisor of another unit). Thus, it indicates some factors in place that lie in a particular supervisor-subordinate dyad. Likewise, causes of favoritism reside in a relationship which, in turn, is characterized by more than a single origin of favoritism. These relational characteristics can be captured comprehensively only by a relationship-specific, as opposed to origin-specific, measure.

Given the two attributes, it should be noted that performance and ability that are most relevant to the decisions under a merit-based system are neither relationship-specific nor time-invariant. In particular, performance is an important decision criterion that, however, varies over time. The essence of promotion centers on its nature as a rank-ordered competition among those who have survived rounds of competition. Thus, a previous promotion (likely thanks to superior performance) hardly translates into a greater likelihood of promotion in another round. As such, performance cannot drive the significance of the indicator. On the other hand, ability is another key criterion that is largely time-invariant, unlike performance, but is not relation-specific. Without any biases in a supervisor's assessment, its distributions should not differ between those promoted by the current supervisor and the others promoted by other supervisors (e.g., a previous supervisor of the current unit or a supervisor in another unit). Little justification can be made for a greater likelihood of promotion in one group than the other. In sum, the indicator variable shall not account for the effect of performance or ability.

Accordingly, a significant correlation of promotion decisions between times indicates that some factors other than these two key criteria affect the decisions. Such factors comprehend various sources of favoritism including school alumni, hometown, family, political orientation, and personal attraction. Unlike the conventional approaches that explore proxies for individual sources of favoritism, the novel approach captures biases arising from diverse origins comprehensively and efficiently. The indicator variable, therefore, obviates the (incomplete and practi-

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4) In the Korean HRM context, Horak (2017, 2014) discusses the effects of informal networks (referred to as *Yongo* in Korean) developed based on school affiliation (*hakyon*), family (*hyulyon*), and regional origin (*jiyon*).

cally unachievable) measurement of individual types of numerous and unobservable social ties lying in supervisor-subordinate relationships.

2. Data Collection

The data are manually collected from the annual reports of Samsung's affiliates which are filed in the Korean electronic disclosure filing system, or Data Analysis, Retrieval and Transfer System (DART). Annual reports provide (1) executives' profiles including name, board directorship, date of birth, rank title, current and/or previous job titles, and education and (2) organizational charts from which organizations at the top three management levels can be identified. Matching organizations and the executive profiles, I obtain the heads of organizations at levels one to three by years. Information regarding organizational heads is then used to (1) match an executive's current organization and the corresponding organization's head, and (2) match the executive's organization and its head at the time of previous promotion.

To limit my attention to a manageable sample size, I restrict the sample to those firms which (1) on average have more than 30 executives per year, (2) have produced at least five years of annual reports from 2001 to 2007, (3) are not financial institutions, (4) are not joint ventures with companies outside the conglomerate, and (5) have the necessary data available. Further, years for executives (1) whose hierarchical level cannot be identified or properly inferred, (2) who are immediate family members of the person of material control,[5] and (3) whose other necessary information is missing are removed from the sample. Importantly, the observations for which the recent promotion dates back before 2001 and thus an immediate supervisor who awarded an executive's previous promotions cannot be identified were eliminated.

As a result, 3,675 executive-year observations from 1,084 unique executives in 6 companies comply with these conditions. The six subsidiaries are among the largest subsidiaries and are strategically important ones.

3. Research Design and Measurement

The research hypotheses are tested with the following logistic regression model that estimates the likelihood of personnel decisions:

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\begin{aligned}
\Pr(Decision_{ijt+1}) = &\ \beta_1 DPrevPromotion_{ijt} + \beta_2 TPrevPromotion_{ijt} \\
&+ \beta_3 ROA_{jt} + \beta_4 LEVEL_{ijt} + \beta_5 EXECLEV_{ijt} + \beta_6 Log(SALES_{jt}) \\
&+ \beta_7 GROWTH_{jt} + \beta_8 SPEED + \beta_9 Log(AGE_{ijt}) \\
&+ \Sigma \beta_{10-11} TENURECAT_{ijt} + \Sigma \beta_{12-13} EDUCAT_{ijt} \\
&+ \Sigma \beta_{14-15} JOBCAT_{ijt} + \beta_0 \ ,
\end{aligned}
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Where i, j, and t indicate individual executives, reporting segments, and year, respectively.

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5) The person of material control is President Lee Kun-hee. The sample excludes a son and two daughters of his and their spouses.

3.1. Personnel Decisions

The dependent variable of the research is the likelihood of promotions, stays, and dismissals for individual executives. To construct the variable, I compare an executive's profile information year-by-year to identify the events of interest. In the dataset, two types of promotions are identifiable: rank advancement and appointment to a head of an organization. In particular, a rank advancement is identified by comparing an executive's rank titles between two consecutive years. I count events as promotions when an executive receives a new rank title higher than the previous one. To identify an appointment to head an organization (from a non-head position), the role title of each executive in a year was analyzed and coded as one if the executive assumes a head role at any level. The latter form of promotion is then identified by changes from zero to one in the coded role title. Once promotions are identified, the years of such career events are used to identify the supervisors along the hierarchy at the time of promotion. Dismissals are identified when an executive's role is changed to an advisory position, which is a completely honorary position that is accorded to practically retired executives, or when an executive's profile is no longer available.

3.1. Current Supervisor's Previous Promotion Award

The key independents are the previous promotion award by a current supervisor and the time since the previous promotion. In particular, *DPrevPromotion* is constructed as an indicator of whether an executive's immediate supervisor at a business unit or higher-level management had awarded the previous promotion to the executive. *TPrevPromotion* is measured as the number of years since the current supervisor's promotion award, while it is zero for executives whose current supervisor is not the one that awarded a previous promotion.

3.2. Control Variables

Return on assets (ROA) is used to capture the effects of organizational performance, computed as a reporting segment's operating profit divided by the total assets at the end of the year. Promotions at high ranks where fewer positions are available at a higher level become less likely. Hierarchical level (LEVEL) is constructed so that a higher numerical value indicates a higher level: multiplying the original hierarchical levels (1-high to 5-low) by -1. To capture the degree of competition, the number of executives at a level (EXECLEV) in a reporting segment is included. Sales (SALES) and sales growth (GROWTH) are included to capture a reporting segment's capability to feed promotions. SPEED captures the fast track feature of promotions, or how fast an executive has been promoted to the current hierarchical rank, calculated as $LEVEL_{it}/(AGE_{it}-TENURE_{it})$, where subscripts i and t denote an individual executive and a year, respectively. Age (AGE) is computed using an executive's date of birth. Tenure at a position is categorized into three groups: tenure groups of (1) less than or equal to 2 years, (2) greater than or equal to 3 years and less than or equal to 5 years, and (3) greater than or equal to 6 years. The variables are constructed as dummy variables for each category (TENURECAT1,2,3) to accommodate the non-linear nature of tenure's effects. Education is categorized into three groups based on the final degree: executives with (1) lower than and including a college degree, (2) a master's degree, and (3) a doctoral degree. They are constructed as dummy variables (EDUCAT1,2,3), and the base is the (lower than) college degree group. Job area is categorized into three groups: executives in (1) general administration and manage-

ment, (2) marketing and sales, and (3) engineering and research. Dummy variables are employed (JOBCAT1,2,3), and the base is general administration and management.[6]

V. Empirical Findings

1. Description of Personnel Decisions

The sample contains 3,675 executive-years of executive profile information collected from the annual reports of six companies in the Samsung Group during the period of 2002 through 2007. ⟨Table 1⟩ provides descriptive statistics and correlations among key variables of the study. There were 623 (16.95 percent of 3,675) promotions made during the period from 2002 to 2007 whereas dismissals account for 11 percent of the cases (397 times). The table also shows that in 69.1 percent (2,538 times) of the decision-making situations, supervisors make personnel decisions regarding subordinates to whom they awarded a previous promotion. The correlations show that both promotions and dismissals are negatively associated with the previous promotion (*DPrevPromotion*) award by a current supervisor, but positively with the time since the previous promotion award by a current supervisor (*TPrevPromotion*).

⟨Table 2⟩ illustrates personnel decisions made during the sample period. It shows the distributions of decisions associated with the type of a relationship with an immediate supervisor (i.e., whether the current supervisor has awarded a subordinate's last promotion) and hierarchical levels. At a glance, the observations in ⟨Table 2⟩ rationalize the suspected presence of favoritism in personnel decisions. Specifically, the table demonstrates that more promotions are awarded to those who have received previous promotion awards by the current supervisor than the others. For example, at the hierarchical level 5, there are a total of 373 promotions, out of which 240 promotions (64 percent) are awarded to those that were previously promoted by the current supervisor (i.e., *DPrevPromotion*=Yes). This is consistent throughout the hierarchical levels. For laypersons, the finding raises reasonable suspicion about any inefficient principal-agent relationships manifested in personnel decisions, or the presence of undue favoritism by which certain executives continue to receive favor in the decisions.

We do need a more proper statistic based on conditional probabilities. Note the unbalanced distribution of the types of a supervisor-subordinate relationship (*DPrevPromotion*). There are approximately twice as many executives of a type (*DPrevPromotion*=Yes) as those of the other type (*DPrevPromotion*=No). Given a type of a supervisor-subordinate relationship and a hierarchical rank, the probabilities of promotion show little differences at the hierarchical levels 1 through 4. Moreover, for those lowest-rank executives, they are even significantly higher when the current supervisor is not the person who granted their last promotions: 29.4 percent for *DPrevPromotion*=No vs. 19.2 percent for *DPrevPromotion*=Yes (t =4.503, p ⟨0.01). The uni

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6) Gender is a common control in the literature but is not considered for a practical reason. Besides the fact that annual reports do not provide gender of executives, there were very few female executives in Samsung Group during the observation period. While little direct evidence is available regarding the number of female executives, some news articles drop a hint about the substantial gender imbalance in executive appointments in Samsung. For example, the first woman executive appointment in Samsung Electronics was made as late as in 2003. Additionally, among the 490 executive promotees in 2011, there were only seven women among whom one is a daughter of President Lee's and five are first-time executive nominees.

Table 1. Descriptive Statistics and Correlations between Variables

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Promotion	0.17	0.38																
2 Stay	0.72	0.45	-0.73 ***															
3 Dismissal	0.11	0.31	-0.16 ***	-0.56 ***														
4 DPrevPromotion	0.69	0.46	-0.03 **	0.06 ***	-0.05 ***													
5 TPrevPromotion	1.28	1.24	0.00	-0.04 ***	0.06 ***	0.69 ***												
6 ROA	0.08	0.13	0.04 ***	0.01	-0.07 ***	0.06 ***	0.04 **											
7 Hierarchical level	-4.18	0.96	-0.13 ***	0.04 **	0.10 ***	0.02	0.18 ***	-0.01										
8 No. of executives	21.71	16.64	0.05 ***	0.00	-0.06 ***	0.00	0.03 **	0.06 ***	-0.30 ***									
9 Ln(sales)	16.48	1.29	0.03 *	-0.05 ***	0.04 **	0.06 ***	0.14 ***	0.03 *	0.05 ***	0.55 ***								
10 Sales growth	0.12	0.47	-0.01	0.00	0.02	0.00	0.00	0.07 ***	0.00	-0.02	0.08 ***							
11 Age	49.2	3.73	-0.07 ***	-0.08 ***	0.2 ***	-0.08 ***	0.10 ***	-0.01	0.66 ***	-0.34 ***	-0.15 ***	0.00						
12 Tenure	2.58	1.64	-0.04 **	0.06 ***	-0.04 ***	-0.01	-0.19 ***	0.00	-0.01	0.02	-0.01	-0.01	-0.09 ***					
13 Education	0.35	0.62	0.00	-0.02	0.03 **	0.06 ***	0.06 ***	-0.01	0.08 ***	-0.02	0.07 ***	0.01	-0.08 ***	0.01				
14 Job: General	0.46	0.5	0.01	0.00	-0.01	0.07 ***	0.08 ***	-0.05 ***	0.04 **	0.11 ***	0.15 ***	0.00	-0.04 ***	0.02	-0.16 ***			
15 Job: Marketing	0.23	0.42	0.03	-0.01	-0.02	-0.09 ***	-0.08 ***	0.06 ***	-0.03 ***	-0.1 ***	-0.05 ***	0.01	-0.03 *	-0.03	-0.03 **	-0.51 ***		
16 Job: Engineering	0.31	0.46	-0.03 **	0.01	0.03 *	0.01	0.00	0.00	-0.01	-0.03	-0.12 ***	-0.01	0.07 ***	0.01	0.21 ***	-0.62 ***	-0.36 ***	
17 Fast track	3.73	1.75	-0.13 ***	0.04 ***	0.09 ***	0.02	0.19 ***	-0.01	0.99 ***	-0.26 ***	0.09 ***	0.00	0.55 ***	0.00	0.1 ***	0.05 ***	-0.03 *	-0.03

Notes: 1. N=3,675.
2. *$p \leq 0.1$, **$p \leq 0.05$, ***$p \leq 0.01$ (two-tailed).
3. ROA, sales and sales growth are for a reporting segment.
4. For correlation, Tenure is in years and Education is 0 for undergraduate or below, 1 for a master's degree, and 2 for a doctorate degree.

Table 2. Personnel Decisions by Hierarchical Rank and Relationship

DPrev Promo	5th (Low)			4th			3rd			2nd			1st (High)			Total
	Dismissal	Stay	Promotion	Dismissal	Stay	Promotion	Dismissal	Stay	Promotion	Dismissal	Stay	Promotion	Dismissal	Stay	Promotion	
Yes	90 (7.2%)	917 (73.5%)	240 (19.2%)	66 (9.0%)	562 (76.4%)	108 (14.7%)	46 (14.6%)	223 (70.8%)	46 (14.6%)	39 (19.2%)	152 (74.9%)	12 (5.9%)	8 (21.6%)	27 (73.0%)	2 (5.4%)	2,538
No	60 (13.3%)	259 (57.3%)	133 (29.4%)	55 (10.5%)	399 (76.3%)	69 (13.2%)	20 (18.2%)	78 (70.9%)	12 (10.9%)	13 (25.5%)	37 (72.5%)	1 (2.0%)	-	1 (100.0%)	-	1,137
t-stat			4.503***			-0.745			-0.970			-1.143			-	
Total	150 (8.8%)	1 176 (69.2%)	373 (22.0%)	121 (9.6%)	961 (76.3%)	177 (14.1%)	66 (15.5%)	301 (70.8%)	58 (13.6%)	52 (20.5%)	189 (74.4%)	13 (5.1%)	8 (21.1%)	28 (73.7%)	2 (5.3%)	3,675

Notes: 1. In parentheses are provided the relative frequencies of a decision compared to the total personnel decisions made for executives at a rank and with the same supervisor-subordinate relation type.

2. T-statistics are provided for the differences in the probabilities of promotion between the supervisor-subordinate relation types at a hierarchical rank.

3. ***$p \leq 0.01$ (two-tailed).

4. *DPrevPromo* indicates that an executive has the same immediate supervisor who has awarded his or her last promotion.

variate result helps to refute the allegation of supervisors' favoring certain subordinates in promotion decisions. The following subsections will test hypotheses with multivariate models to evaluate the claimed control of a supervisor's blatant favoritism.

2. The Effects of Previous Promotion Awards on Personnel Decisions

2.1. Test of H1

M1 and M3 in 〈Table 3〉, which estimate the likelihood of promotions, report negative and significant coefficients on the *DPrevPromotion*: $\beta=-0.230$, $p=0.026$ in M1 and $\beta=-0.466$, $p\langle0.01$ in M3. The result rejects H1a; the negative coefficient is a very strong rebuke of favoritism. The finding suggests that a previous promotion award by the current supervisor does not improve but reduces the likelihood of a promotion award at the current round, which is opposite of the case of favoritism.

M4 and M6 report the results for retention (i.e., promotions and stays). In both regressions, *DPrevPromotion* carries positive and significant coefficients ($\beta=0.215$, $p=0.083$ and $\beta=0.768$, $p\langle0.01$ respectively), which finds support for H1b. This suggests that a supervisor's promotion award to a subordinate protects the subordinate from dismissal, and as a result, extends the subordinate's tenure in the organization. The finding indicates weak-form favoritism, which is not incompatible with the argument that favoritism is contained to a minimum level.

2.2. Test of H2

H2a and H2b state that longer relationships established through previous promotion awards by current supervisors help them to sort the good from the bad. 〈Table 3〉 shows that this is the case. In particular, the positive coefficient on *TPrevPromotion* in M3 for promotion ($\beta=0.116$, $p=0.05$) and the negative coefficient in M6 for retention ($\beta=-0.250$, $p\langle0.01$) support H2a and H2b respectively. That is, the time since a supervisor's previous promotion award increases the likelihood of promotion and decreases (increases) the likelihood of retention (dismissal). The finding suggests that relationships may help supervisors to better understand their subordinates, to sort them into the good and the bad types, and finally to promote the former and discharge the latter.

2.3. Multinomial Logit Regressions

〈Table 4〉 reports the results of multinomial logit estimation to accommodate the trichotomous nature of personnel decision outcomes: promotion, stay, and dismissal. The baseline decision is stay. Given the baseline, the negative coefficients on *DPrevPromotion* in Dismissal ($\beta=-0.884$, $p\langle0.01$) and in Promotion ($\beta=-0.558$, $p\langle0.01$) suggest that when the current supervisor has award a subordinate's last promotion, the subordinate is likely to be protected from dismissal and, at the same time, less likely to get another promotion from the supervisor. On the other hand, the significant and positive *TPrevPromotion* in Dismissal ($\beta=0.291$, $p\langle0.01$) and in Promotion ($\beta=0.162$, $p=0.01$) indicates an increasing likelihood of dismissal and promotion in time for those subordinates whose last promotion has been granted by the current supervisor. The findings from the multinomial model confirm all the previous discussions on the determinants of personnel decisions.

Table 3. Logistic Regressions of Personnel Decisions

	Dependent = Promotion[a]			Dependent = Retention[b]		
	M1	**M2**	**M3**	**M4**	**M5**	**M6**
DPrevPromotion	-0.230**		-0.466***	0.215*		0.768***
TPrevPromotion		-0.015	0.116**		-0.060	-0.250***
ROA	0.011***	0.010**	0.011***	0.050***	0.050***	0.047***
Hierarchical level	-3.203***	-3.494***	-2.757***	2.540***	2.770***	1.827**
No. of executives at a level	-0.020***	-0.019***	-0.021***	0.014**	0.013**	0.015**
Ln(sales)	0.215***	0.209***	0.209***	-0.407***	-0.398***	-0.384***
Sales growth	-0.260	-0.246	-0.266	-0.115	-0.120	-0.109
Ln(age)	5.471***	6.173***	4.536***	-17.586***	-18.231***	-15.736***
Tenure: [3.5]	-0.187*	-0.218**	-0.139	0.026	0.019	-0.008
Tenure: [6, ∞)	-0.911***	-0.860***	-0.854***	1.052***	0.911**	0.948**
Education: Master's	-0.093	-0.098	-0.100	0.026	-0.268*	-0.271*
Education: Doctorate	0.333*	0.324*	0.331*	1.052***	-0.391*	-0.414*
Job area: Marketing/sales	0.030	0.051	0.033	0.165	0.127	0.142
Job area: Engineering/research	-0.232**	-0.221*	-0.230*	-0.068	-0.093	-0.077
Fast track	1.256***	1.399***	1.028***	-1.062***	-1.162***	-0.676*
Constant	-44.064***	-48.596***	-37.622***	91.362***	95.311***	79.342***
S.D. (u_0)	0.366***	0.354***	0.370***	0.446***	0.442***	0.437***
Prob > Chi^2	<0.000	<0.000	<0.000	<0.000	<0.000	<0.000

Notes: 1. N=3,675.
2. $*p \leq 0.1$, $**p \leq 0.05$, $***p \leq 0.01$ (two-tailed).
3. Statistical significance is based on standard errors clustered by executives.
4. a as compared with stay and dismissal. b as compared with dismissal.

Table 4. Multinomial Regressions

	Dismissal	Promotion
DPrevPromotion	-0.884***	-0.558***
TPrevPromotion	0.291***	0.162**
ROA	-0.041***	0.007**
Hierarchical level	-2.221***	-2.559***
No. of executives at a level	-0.016***	-0.007*
Ln(sales)	0.360***	0.154***
Sales growth	0.074	-0.212
Ln(age)	15.550***	5.371***
Tenure: [3.5]	0.001	-0.091
Tenure: [6, ∞)	-1.110***	-0.977***
Education: Master's	0.333**	-0.064
Education: Doctorate	0.556***	0.409**
Job area: Marketing/sales	-0.088	0.025
Job area: Engineering/research	0.035	-0.206**
Fast track	0.856**	0.980***
Constant	-80.320***	-38.924***
Pseudo R^2	7.47%	
Wald Chi^2	339.090***	

Notes: 1. N=3,675.
      2. *p≤0.1, **p≤0.05, ***p≤0.01 (two-tailed).
      3. Statistical significance is based on standard errors clustered by executives.
      4. The base outcome (decision) is Stay.

VI. Conclusion

The central question of this study is whether (undue) favoritism survives even in a contemporary industrial organization with merit-based principles. To solve the puzzle, I analyze personnel decisions made for executives in a Korean conglomerate. In the conglomerate in which HRM policies are primarily merit-based, blind favoritism would incur huge costs to supervisors and, in theory, this renders favoritism unlikely. All in all, this study finds support for Prendergast & Topel's claim (1996) that merit-based practices increase the cost of favoritism that may accrue to supervisors and, accordingly, constrain them from misreporting their evaluation of subordinates. However, the findings do not indicate that favoritism, in any form, is rooted out. At best, they can be understood as the evidence of containment of blatant favoritism that would have caused much harm to the organization without a proper countermeasure in place. Still, they suggest that a weak form of favoritism may survive the merit-based practices. In addition, the findings regarding the time since a promotion award suggest a positive functionality of supervisor-subordinate relationships: to help supervisors to sort more capable subordinates from the others. This is, by and large, consistent with the benefits from the relationships illustrated in the LMX and the social capital literature.

Like any study, this study has weaknesses. This requires caution in the evaluation of the findings. First, this study relies on the evidence documented in prior relevant studies about the conglomerate's HRM practice to assume a merit-based compensation policy in the conglomerate. Further, the research setting does not allow a pre-post comparison design with which the effect of a merit-based practice would have been better understood. Second, the dataset provides a unique opportunity to investigate the research question, but the dataset also has some limitations. In particular, the data are collected from a Korean conglomerate whose HRM practices and national and organizational culture differ from others. Also, although this study exploits a large dataset, including 3,675 executive-years in 6 companies, those individual companies fall practically under the same HRM policies. This may limit the generalizability of the findings from the dataset.

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