

The Productivity Costs of Workplace Favoritism: Evidence from Promotions in Chinese High Schools*

Xuan Li

Columbia University

October, 2018

Abstract

This paper studies the productivity consequences of favoritism in employee promotions within an organization. Using data from public high schools in four Chinese cities, I first show that teachers with hometown or college ties to the school principal are twice as likely to be promoted. I then use the results from a survey in which I asked teachers to select an anonymous peer to promote from a pool of applicants applying for promotion to infer each teacher's revealed fairness views. Contrasting these with actual past promotions in turn allows me to measure if and when a teacher observed unfair promotions in her own school in the past. I show that exposure to unfair promotions adversely affect *non-applicant* teachers' output, lowering their value-added in teaching and raising the probability that high-value-added teachers quit. The productivity effect appears to be driven primarily by the teachers' social preferences for their peers and consequent eroded morale when peers suffer unfair treatment, while the quitting effect comes mainly from unfavored prospective applicants learning about the principal's bias and leaving due to poor promotion prospects. These adverse effects are far from offset by increased productivity from favored teachers so favoritism substantially reduces school-wide output. Finally, I show that a transparency reform that required principals to disclose the profiles of teachers that apply for promotion to their peers reduced the principals' bias and improved the overall productivity of schools, pointing towards policy tools that can help address the adverse productivity consequences of favoritism in employee promotions.

*x12404@columbia.edu, Department of Economics, Columbia University. This paper has benefited from insightful comments and helpful suggestions from Bentley MacLeod, Jonas Hjort, Doug Almond, Wojciech Kopczuk, Miguel Urquiola, Michael Best, Francois Gerard, Miikka Rokkanen, Gregory Cox, Alex Eble, Danyan Zha, and participants of the Columbia Applied Microeconomics Colloquium for helpful discussions. Several unnamed officials in the department of education of a Chinese province provide invaluable data support. All errors are my own.