

Promotions as implicit incentives for human capital acquisition

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Abstract: The importance of human capital in building and maintaining competitive advantage is undisputed, and ensuring that employees invest in their human capital has thus become of utmost importance to firms. Despite this, management accounting research has not dedicated much attention to the control mechanisms that aim at upgrading the effective ability of employees, i.e., training and assignment of employees. In this study, we investigate the complementary roles of training and promotions in the active management of employees' human capital acquisition. In particular, based on a simple theoretical framework, we predict that promotion opportunities create implicit incentives to invest in task-specific human capital. To test this prediction, we develop an identification strategy to estimate the causal effect of promotion opportunities on the acquisition of task-specific human capital. Using panel data of a retail bank, we provide evidence that, in contrast to bonus-based incentives, which focus on the current job, promotion is an ideal mechanism to incentivize the acquisition of human capital that is relevant for the next job, especially when these skills are not yet relevant in the current job.