Faculti Summary
https://faculti.net/firm-performance-pay-as-insurance-against-promotion-risk/

This video discusses the concept of "promotion risk," which refers to the possibility of being passed over for a promotion despite high performance, particularly in competitive workplace environments where promotions are limited. It highlights the idea that not only must employees perform well, but they must also outperform their coworkers to secure promotions. This video is illustrated through a Google Consumer survey indicating employees perceive promotions as the key way to increase pay, and data showing high-performing workers are less likely to be promoted when their peers also perform well.

The author argues that firm performance pay—where workers' compensation is tied to company performance—may serve as a form of insurance against promotion risk. This video challenges the conventional view that it merely imposes risk on employees. Instead, the framework proposed suggests that when firms provide performance-based pay, they compensate employees for the lower probability of promotion that comes when many coworkers are also excelling.

Through examples and theoretical discussions, the text outlines how promotion risk and firm performance pay are interconnected. It concludes that understanding this dynamic can help better inform compensation practices and bridge gaps between organizational economics and finance literature, emphasizing the need for more research in this area.